

***Forging an Intelligence
Partnership: CIA and
the Origins of the BND,
1945-49***

A Documentary History

Volume II

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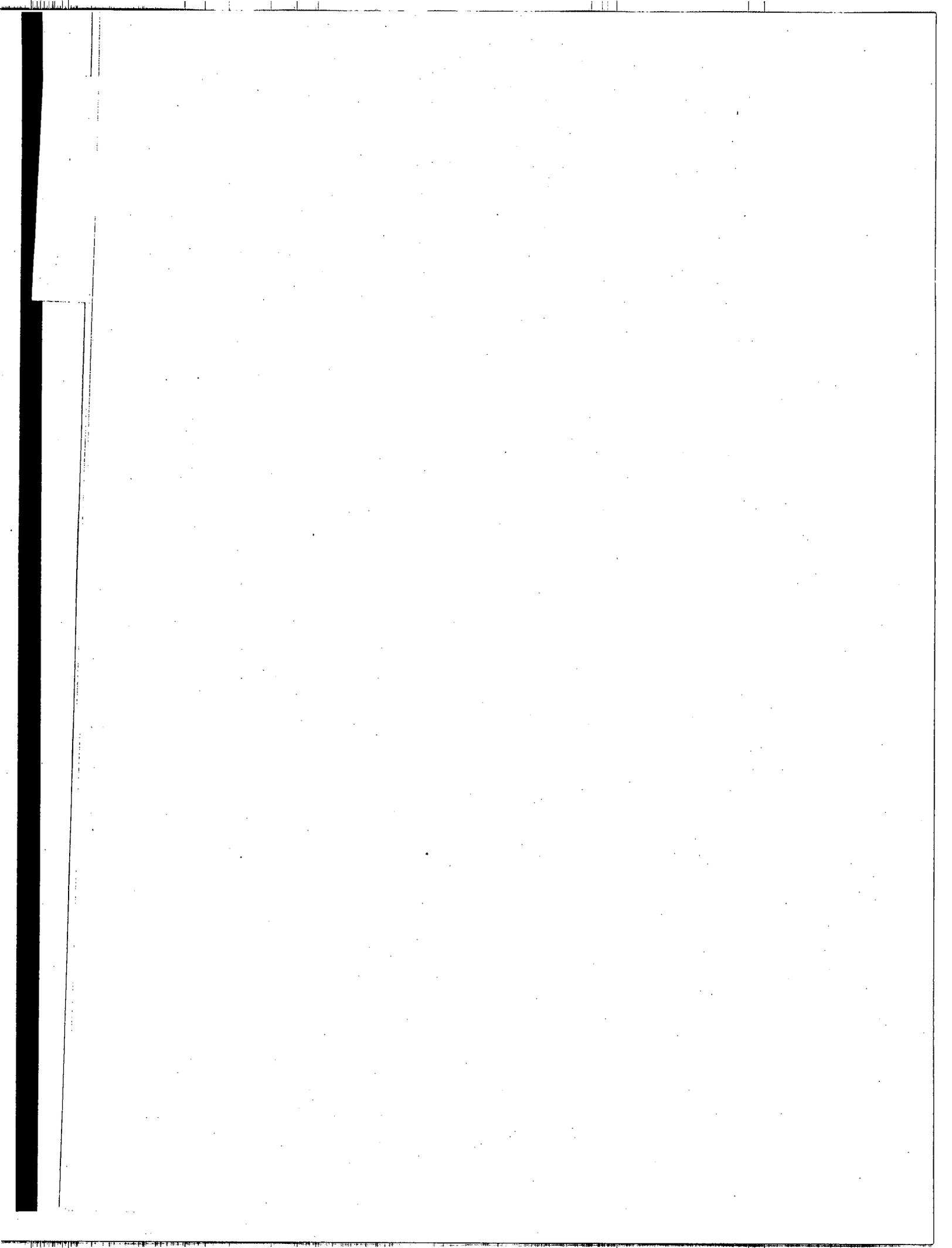
*European Division
Directorate of Operations
1999*

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Part V
The Critchfield Report



57. Chief of Station, Heidelberg to Chief, FBM, "Russian Newspaper Attack on American Intelligence Activities," with attachment, 6 February 1948

**SECRET/RELEASE
TO GERMANY ONLY**
CONFIDENTIAL DISPATCH

MGBA-1248

VIA: AIR POUCH
SPECIFY AIR OR SEA POUCH

DISPATCH NO.: [REDACTED]

CONFIDENTIAL
CLASSIFICATION

DATE: 6 February 1948

TO : Chief, Foreign Branch "M"
FROM : Chief of Station, Heidelberg, Germany
SUBJECT: Russian Newspaper Attack on American Intelligence Activities
REF : [REDACTED] *WASH 0785 and BRLN 844*

1. Enclosed article appeared in the 31 January 1948 issue of the Tägliche Rundschau, overt Red Army newspaper published daily in Berlin. The article was reprinted fully or in part by all the Soviet-licensed newspapers in Berlin, with the exception of the Morgen and Neue Zeit, publications respectively of the LDP and CDU. It is being submitted to you in accordance with the request contained in the last sentence of Washington [REDACTED]. *cable 0785*

2. You will note that the writer of the article makes no distinction between the activities of "Rusty" and those of the group headed by the former German General GUDERIAN. The latter is supervising a project to compile a history of the recent war, under the auspices of the Army Historical Division. GUDERIAN, to the best of our knowledge, is not engaged in intelligence gathering activities.

3. The news-agency "Telepress" - alleged source of the article - is unknown in Berlin journalistic circles. The appropriate inquiries have been started.

attachment

[REDACTED]
[REDACTED]
SC Berlin

Distribution:

- 2 - FBM
- 1 - COS
- 1 - REG
- 1 - SCB

REGISTRY COPY

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CLASSIFICATION

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57. (Continued)

Guderians „Amerika-Werwolf“

Hamburg, 30. Januar (ADN). „Amerika-Werwolf“ nennt die Nachrichtenagentur Telepress das Netz von Spionen und Agenten, das von dem ehemaligen Generalobersten Guderian unter der Aufsicht von amerikanischen Offizieren aufgezogen worden ist. Wie bekannt, ist Guderian nach unwidersprochen gebliebenen unerschütterlichen Nachrichten von amerikanischen Stellen beauftragt worden, ein unter der Bezeichnung „Die Abwehr“ erkannt gewordenen nazistischen Geheimdienst zu rekonstruieren und reaktivieren.

Guderian, der mit seinem Stabe unter amerikanischem Protektorat von dem in der amerikanischen Besatzungszone gelegenen Allendorf aus seine Netze spinnend, konnte, wie Telepress aus Prag berichtete, bereits mit den ersten „Erfolgen“ seiner subversiven Tätigkeit den amerikanischen Auftraggebern aufwarten. Auf tschechoslowakischem Boden wurden von der tschechoslowakischen Sicherheitspolizei 15 Personen verhaftet, die sich als Mitglieder des „Amerika-Werwolf“ entpuppten.

Die Mitglieder der deutsch-amerikanischen Spionageorganisation versuchen in vielen Fällen, so berichtet Telepress, Personen, deren Bekanntschaft sie gemacht haben, durch phantastische Versprechungen zum illegalen Grenzübertritt in die amerikanische Besatzungszone Deutschlands zu verlocken. Von den illegalen Einwanderern werden dann Informationen erpreßt. Teilweise werden sie für spezifische Aufgaben geschult

und später mit besonderen Instruktionen in Ursprungsland zurückgeschickt.

Im Ausland läßt Guderian seine Agenten in die Gesellschaft „einsickern“, wobei die Agenten benützt bleiben, durch Ausbreitung anti-sowjetischer Propaganda, durch Förderung des Rassenhasses und durch die Bekundung einer feindseligen Haltung gegen jeden demokratischen und sozialen Fortschritt bei reaktionären Elementen Sympathien zu erwecken. „Alle Merkmale angewandter Nazipropaganda“, so stellt Telepress fest, „sind im Sinne von General Clays Instruktionen über die antikommunistische Kampagne in Deutschland wiederzuerkennen.“

Der „Amerika-Werwolf“ nimmt sich in besonderer Weise der Umsiedler und Flüchtlinge aus den Ostgebieten an. Er versucht, wie Telepress meldet, Einfluß auf sogenannte volksdeutsche Vereine in der Doppelzone zu gewinnen, um später aus den Reihen der Mitglieder dieser Vereine seine Agentenkadere aufzufüllen.

Im Stab des „Amerika-Werwolf“ Guderians ist neuerdings der ehemalige Kapitänleutnant Jürgen Wattenberger aufgetaucht, der laut Telepress „mit wirksamen Empfehlungen von Seiten der Amerikaner“ in Allendorf eintraf. Wattenberger war nach der Vernichtung des „Graf Spee“ in Argentinien interniert, konnte mit Hilfe argentinischer Faschisten aus der Internierung „entweichen“, kehrte nach Deutschland zurück, wurde U-Boot-Kommandant und geriet schließlich in amerikanische Kriegsgefangenschaft.

58. Memorandum to Helms, "Operation RUSTY," 18 March 1948

STANDARD FORM NO. 64
SECRET/RELEASE
TO GERMANY ONLY
Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Richard Helms
DATE: 18 March 1948
FROM : ~~██████████~~ *Mr. Henry Hecksher*
SUBJECT: Operation RUSTY

1. About two months ago Major General Walsh told ~~██████████~~ that when he, Walsh, next visits the United States, he is going to raise again the question of CIA taking over Operation Rusty. He thinks that a mutually satisfactory arrangement can still be arrived at.

2. I am of course in no position to give you a considered overall appraisal of Operation Rusty, although I am certain that most of Sam Bossard's observations and strictures are still valid. Lt.Col. DEAN's successor (his name has escaped me) is highly thought of as an officer, but like his predecessor he is not an intelligence man equipped to supervise, control and steer an operation as complex as Rusty. There is no doubt that Rusty enjoys the unqualified backing of the Army in Germany. Instructions have gone out to the various CIC Regions enjoining them not to interfere with the activities of Rusty operatives and, in the Munich area at least, Rusty is in a position of unchallenged ascendancy.

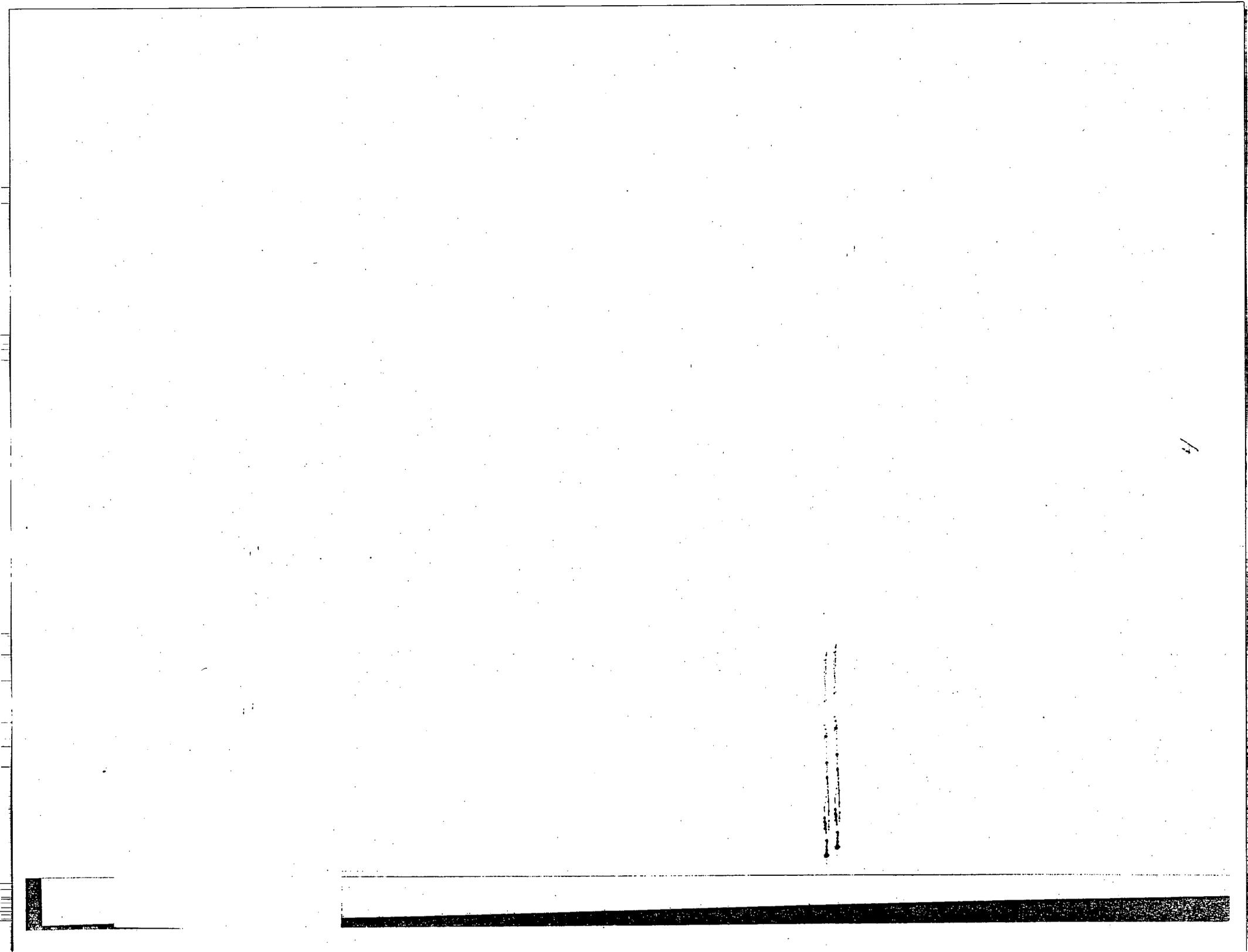
3. I need not elaborate on the unorthodox methods applied by Rusty in running its operations, nor on the value of its product. They are known to you from Bossard's study. ~~██████████~~ should be in a position to give you an authoritative and up-to-date account of Rusty's activities in the Munich area. An interesting sidelight on Rusty's recruiting methods is shed by the fact that they took over some of the informants dropped by Munich Operations Base after it had been conclusively established that the intelligence they furnished was of no value whatsoever. I do not know whether the circumstance that the activities of Rusty have become a major issue between ODDI and the ~~██████████~~ should affect our judgment. The fact is that the ~~██████████~~ strongly resent Rusty's forays into their territory, particularly since they believe that Rusty has been penetrated by the Russians. I have been told that the ~~██████████~~ some time ago put out a study, made available to our service, to back up this stand.

British Intelligence Division
British
British

4. That the Russians must know something about our using former German staff and intelligence officers for intelligence purposes is clearly indicated by the Telepress reports which were forwarded to you by Berlin. Although most of those reports were inaccurate in detail, even General Walsh had to admit that they reflected serious flaws in the security of Rusty.

5. You are no doubt aware that a decision on whether CIA should take over Rusty has to consider the political implications of sponsoring an organization which in the opinion of qualified observers constitutes a re-activation of the German Abwehr under American aegis. If the Russians have succeeded in penetrating Rusty - and considering the many breaches of security that came to our knowledge recently it is a fair assumption that they have - the political implications alone (leaving aside the espionage angle) would come in handy if the Russians at any time should look for a pretext to provoke a showdown in Western Germany.

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TO GERMANY ONLY



59. Helms to ADSO, "Rusty," 19 March 1948

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TO GERMANY ONLY

19 March 1948

MEMORANDUM

TO: ADSO
VIA: COPS [REDACTED]
SUBJECT: Rusty

1. I thought you might be interested in the fact that in a conversation two months ago with [REDACTED], General Walsh stated that when he next visits the United States, he is going to raise again the question of CIA taking over operation Rusty. He apparently told [REDACTED] that he thought a mutually satisfactory arrangement could be [REDACTED].
2. According to evidence from Germany, nothing about Rusty has been altered which would lead us to change the position taken by us last year. In fact, the reports in the Soviet dominated press in Germany concerning the use of former German staff and intelligence officers are such that there is no question that the Russians know this operation is going on even though they may have some of the details wrong. Certainly the fact that so much publicity has been given to this indicates serious flaws in the security of the operation.
3. Although our men in Germany have scrupulously followed your instructions to take a neutral attitude with regard to Rusty, the activities of that operation are well known to all our case officers and are a subject of real concern to them, largely on the grounds of security.
4. There is nothing new in the foregoing, but I thought you would want to be kept up-to-date.

[REDACTED]
RICHARD HELMS.

~~SECRET~~
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60. Chief, Foreign Broadcast Information Branch to ADSO, "PRAVDA Report of US Spy Group in USSR Zone of Occupied Germany," 30 March 1948

STANDARD FORM NO. 64

RESTRICTED

Office Memorandum • UNITED STATES GOVERNMENT

TO : Assistant Director for Operations

DATE: 30 March 1948

FROM : Chief, FBIB

SUBJECT: PRAVDA Report of U.S. Spy Group in USSR Zone
of Occupied Germany

**SECRET/RELEASE
TO GERMANY ONLY**

The following two articles relative to the above subject have been monitored by FBIB to date:

PARIS IN FRENCH TO INDO-CHINA at 8:30 A.M., 30 March 1948

"PRAVDA has announced that a Fascist espionage organization has been discovered in the Soviet occupation zone in Germany. According to PRAVDA, the organization is financed by the American intelligence services."

MOSCOW, SOVIET HOME SERVICE, at 4:00 A.M., 30 March 1948

(Central Press Review) (Excerpts)

"PRAVDA's correspondent reports from Berlin:

"Recently an espionage body was discovered in the Soviet Occupation Zone in Germany. It was headed by Herbert Pinkert, formerly a colonel in the German Army and commander of a regiment in the Brandenburg special duties division. On Pinkert's admission, he is a member of an illegal fascist organization in the Western Zone consisting of officers of the former German Army who are employed by the American Intelligence for espionage in the Soviet Zone.

"According to Pinkert, the center of this organization was located first in Frankfort on the Main and in the spring of 1947 was transferred to Munich. It is headed by Colonel General Halder, former Chief of Staff of the German Army. Pinkert admitted that this illegal fascist organization is subsidized by the American Intelligence and major German industrialists from whom it receives monthly large sums of money.

"On several occasions Pinkert illegally entered the Soviet Zone where he recruited officers of the former German Army whom he knew for the organization and gave the American Intelligence information of a military, economic, and political nature, in particular, details about Soviet Army units, airfields, and military commands."

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TO GERMANY ONLY**


Chief, FBIB

RESTRICTED

61. Chief, FBIB to ADSO, "PRAVDA Report of US Spy Group in USSR Zone of Occupied Germany," 31 March 1948

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RESTRICTED

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Assistant Director for Operations

DATE: 31 March 1948

FROM : Chief, FBIB

SUBJECT: PRAVDA Report of U.S. Spy Group
in USSR Zone of Occupied Germany

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On 30 March, the Soviet-controlled Berlin radio transmitted (in German to Germany) a version of the subject PRAVDA article. The Berlin radio's version gave the following alleged "facts" in addition to those included in the Soviet Home Service broadcast, reported in memorandum of 30 March 1948 from Chief, FBIB to Assistant Director for Operations.

According to the Berlin broadcast, Pinkert (alleged to be head of an American-financed "espionage body" in the Soviet zone) was recruited into this illegal organization in the summer of 1946 by Hans Erasmus, formerly Chief of Staff of the "Brandenburg" Division. Pinkert also admitted that it was the task of the center of this illegal organization to contact German agents who had been left in various countries during the war. Espionage activities were to be carried out mainly through Austria and Sweden. Pinkert himself had been repeatedly in the Soviet zone by order of Erasmus. There he won over to the organization officers of the former German armed forces whom he knew personally. The information given to the American intelligence also included the condition and productivity of industrial enterprises in Saxony.


Chief, FBIB

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TO GERMANY ONLY
RESTRICTED

62. Chief, Munich Operations Base [redacted] to Acting Chief of Station, Karlsruhe, "Rusty," 7 July 1948

**SECRET/RELEASE
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~~SECRET~~
#1
MGMA-602

VIA: Courier
SPECIFY AIR OR SEA POUCH

DISPATCH NO.: [redacted]

~~SECRET~~
SECRET
CLASSIFICATION

TO : Acting Chief of Station, Karlsruhe DATE: 7 July 1948
FROM : Chief, Munich Operations Base
SUBJECT: GENERAL -
 SPECIFIC - Rusty

Attached hereto and forwarded to you is a concise summary on Subject.

Distribution:
3 - COS w/Incls ✓
1 - file w/Incl.

MOB CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Changed to Secret
BY AUTHORITY OF [redacted]
Name [redacted]
Date 14 MAY 1961
29 July 1948

1st Ind.

To: FBM

From: Acting Chief of Station, Karlsruhe

1. Forwarded per Fletcher M. Knight's verbal request.
2. Transmission was delayed in the hope that similar reports from BOB and KOB could be forwarded at the same time. Since they have not yet been received, they will be forwarded separately as they come in.

COPY No. 1

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CLASSIFICATION

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~~TOP SECRET~~
SECRET/RELEASE
TO GERMANY ONLY RUSTY

SECRET
Secret
BY [REDACTED]
MAR 1961

1. If the ensuing remarks on Rusty operations tend at any point to veer away from a purely objective appraisal, please bear in mind that they are the result of propinquity, and a constant barrage of denunciations, on the part of MG and influential Germans, of the outrageous practices of American Intelligence.

2. Rusty's headquarters is located in the outskirts of Munich at Pullach, in a large caserne once used by CGD. In addition to the HQ, approximately 20 houses have been taken over in the vicinity of the HQ, which are used by staff and other personnel. There is a large motor pool, a total of 106 vehicles (German licensed, but Army owned) being serviced at present by Army Ordnance. In Munich, Rusty is known as the 7821st Composite Group, although their EUCOM designation is TIB (Technical Intelligence Branch), G-2, EUCOM.

3. SECURITY. As the result of Rusty's insecure methods of operating (both in the American and German level) the existence, aims and some hundreds of the covert personnel are known to many OMGB personnel, both American and German, and to an unknown number of German officials both in the Bavarian Government and in the various Bavarian police agencies. (Insecurity vis-a-vis MG will be discussed in Para. 5.). On the German side the following factors contribute to insecurity:

a. Rusty's German agents, when approaching potential recruits, invariably present documents identifying themselves as working for American Intelligence. The most common is a letter signed by an American officer stating that the individual is working for TIB. These documents are produced not only for recruiting, but also to obtain special favors, as a means of "social adornment", (the term "social adornment" was used by an MG official), and to intimidate American or German law enforcement agencies.

b. Rusty's interference with the normal process of law, particularly Denazification and Automatic Arrest procedures. The most flagrant example, which has become a cause celebre in Bavaria is Rusty's intervention in favor of Fritz Fischer who was head of the Bavarian Staatsoperette during the Nazi Regime. A member of the NSDAP since 1933 and of the SA since 1938, Fischer was a close personal friend of Gauleiter Wagner and profited enormously from the association. His denunciations of other Germans to the Gestapo are a matter of record, but a better known charge is that of rape, for which Fischer was acquitted as a result of Wagner's pressure on the courts. At that time (circa 1940 ?) public opinion was indignant at which was considered a flagrant and open miscarriage of justice.

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62. (Continued)

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TO GERMANY ONLY - 2 -

Fischer was interned in 1945 by CIC as automatic arrestee and released in 1946 at which time he was recruited by Rusty. Shortly after this, Fischer was again arrested on order of the Spruchkammer to await trial. He was immediately released to custody of Rusty at request of Capt. Waldman of that organization. On 6 April 1948 Fischer appeared at his trial accompanied by one of Rusty's NCOS. At that time (in the words of a Munich police official) "Fischer's behavior in the court was insolent and sarcastic". On 7 April when Fischer was to receive sentence he did not appear in court. (He was sentenced in absentia to two years in a labor camp). As his case had already aroused the interest of the press, because of the rape incident, the fact of his American protection, his manner towards the court and his absence on the last day of the trial all were widely reported in Munich newspapers. The Spruchkammer in the meantime reported Fischer as a fugitive and an intensive hunt was begun by police agencies. At this point Capt. Waldman approached Denazification Branch, OMGB, demanding that Special Branch reverse the decision of the Spruchkammer and announced that he would not return Fischer to German custody. Fischer, he said, was fourth from the top in the German organization run by Rusty and that if he were to serve his sentence, the "morale of the other key members of the organization would be greatly injured and the prestige of American Intelligence lowered in their eyes".

The Fischer case was kicked up to OMGUS and the decision made that Fischer be turned over to the German authorities. Fischer now at Dachau, has appealed his sentence and the prediction is that at the new trial, a stiffer sentence will be meted out.

Comment: The Fischer case has been presented in detail for fear that a shorter exposition might elicit the view that "at one time or another all intelligence agencies have gone to bat for their men" and that the old chestnut of glass houses be referred to.

Another example of intervention is Rusty's attempt (which might prove successful) to re-instate Max Jacob Landrat of Kreis Berchtesgaden during the Nazi regime, in his former post. In MG's opinion, these two cases, and other instances not worth reporting here, will have a disastrous effect on German public opinion, such as it is.

c. The extremely careless methods used by Rusty in requesting services of MG and the Military Post. In various MG Branches (Manpower, Housing, Transportation, Intelligence, etc) there are long lists of Rusty agents for whom services are being performed. Rusty does not classify the majority of these lists and as a result they are handled by German employees of MG with consequent security implications. A more serious aspect of this practise is the fact that at times individuals are listed whom

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TO GERMANY ONLY

62. (Continued)

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Rusty is attempting to recruit and who, although possibly never recruited, are thereby compromised. An example of this is [] who though openly critical of Rusty's methods, has been approached by Rusty. As far as we can determine, Rusty has attempted to extend special favors as an inducement to recruitment, and [] is listed in an unclassified memo to MG Special Branch for permission to operate a car. [] is not a Rusty agent.

d. The "free-wheeling" which is indulged in by Rusty's agents. The Border Police in particular are astounded at the freedom of movement and unsupervised activities of Rusty agents. [] have repeatedly, and completely unsolicited, reported on the location of Rusty safe houses, sub-headquarters, vehicles, and on the identity of agents themselves. When a Rusty agent is picked up for black marketing in goods or monies (and this is often) he immediately requests to be taken to CIC, who are instructed to get in touch with Rusty, and the release is automatic. All these extracurricular activities, which Rusty admits are not supervised, are passed off as "operational necessity". CIC is powerless to take any action and bitterly resents the fact.

4. Recruiting Methods. Rusty's recruiting drive is given impetus by two methods:

- (1) Impressing potential agents with the high-level backing of the organization and
- (2) Prodigious outlay of money and supplies.

*led
1/19*
The usual approach of Rusty agents is, as already mentioned, representing TIB. This was used when two former Abwehr officers, SUESS and FAERBER, approached the chief of the Grenzpolizei and attempted to recruit not only the chief but the service of the Grenzpolizei organization itself. The Chief of the GP was not impressed and not recruited, his main objection having been fear for his own security. Another approach, and this is reserved for high-level prospects is to have an American make the initial contact, claiming direct lines to President Truman and the Pope (the ecclesiastical touch is somewhat useful in catholic Bavaria). A recent approach, one which does this organization no good, is to claim authority from the War Department. This is also used in contacts by Rusty's American personnel with various offices in MG and the Military Post with the result that quite often one of our personnel will be informed of the fact that the War Department (MG and the Post make no distinction between War Department and War Department Detachment) has put in a request for a block of apartments, and "who the hell do you think you are to make such a demand and in such a high-handed manner". The trouble is always straightened out and the finger always points at Rusty. Recently,

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62. (Continued)

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- 4 -

when [redacted] approached the Accomodations Officer at the Post for an operational house, the AO was rather skeptical of the request until one of his underlings told him that was connected with Colonel Baun's organization (former Abwehr officer, chief of Rusty's German staff) at which point the AO grudgingly said: "What is it you want this time?" Needless to say, the connection was vehemently denied by [redacted] who then had to produce all his letters of authority in order to obtain what, in light of Rusty's constant demands, was an exceedingly modest requirement. It should be mentioned here that a few months ago, at a meeting of the various "security agencies" in Munich, called by MG to discuss the operational housing problem, Rusty's representative was a German national. Present were officers from CIC, CID, MIS, and Intelligence Division, MG.

With regard to the outlay of money and supplies it need only be said that Rusty's scale of payment has thrown the intelligence market all out of proportion. Time and again we are faced with the problem of convincing someone that he should work for idealistic motives (and a reasonable amount of supplies and money) rather than for a tempting 200 to 1,000 Dollars a month offered by Rusty. It presents a poser when an individual says: "Obviously this is a much more powerful and richer organization than yours. I've been offered American Dollars, a car, and travel facilities, and besides, I'll still be working for the American Government." The only argument that works is that of the security implications and Rusty's weakness in this regard is well enough known to act as a deterrent to individuals of a sober turn of mind. It is not uncommon for an individual who has a potential net working into one of the eastern countries (and these are a dime a dozen in Munich) to demand 2,000 Dollars a month for the running of his operations. When asked why the high demand they state that they have been offered that by "TIB", but that they prefer not to work with Germans. If the net appears to be of potential use, a modest counter-proposal is made which usually leads to the remark: "Who is getting the big cut?" and the negotiation falls flat. [redacted], a former informant of this Base, dropped in 1946 because of low level production, was paid 500 Dollars a month by Rusty over a five month period. He stated recently that "I've never made such easy money in my life". [redacted] reported that [redacted] doctored up old reports, dated 1942 and 1943, and passed them along to Rusty as current info.

CAPELIN

5. The most disturbing feature of Rusty's operational methods is the effect on MG's attitude towards American Intelligence in general. The various MG Branches have to be used frequently by all security and intelligence agencies for any number of reasons, ie. documentation, housing, car licenses, tankausweisen, etc. Prior to Rusty's installation in Munich, such requests were infrequent and were honored with a minimum of delay. At the present time, because of the flood of Rusty's requests (the word requests is used advisedly) an official stop

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62. (Continued)

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TO GERMANY ONLY ~~SECRET~~

- 5 -

has been put to documentation, housing and transportation licensing. Our requests are still being honored but only because of personal relations built up with the various division chiefs. Inevitably during a conversation with MG officials the question is asked "What do you think of TIB?" This is countered with "What do you think?" which leads to lengthy and vociferous attacks on Rusty's seemingly endless demands for services. The entire matter has been referred to OMGUS by OMGB and is being discussed with General Walsh. At the Military Post, the situation is about the same, except that by EUCOM directive the Post has to honor all of Rusty's requests and any appeal is looked upon with disfavor. Any other agency, lacking this EUCOM carte blanche, has to scrounge to obtain the few services necessary to a normal execution of duties. It must be said that this scrounging is not without results; however, as the politesse called for produces an amazingly cooperative attitude on the part of those officers ordinarily subjected to Rusty's consistently high-pressure tactics.

6. The foregoing is obviously academic since nothing is known here of the quality of Rusty's production. It must be disregarded entirely if Rusty has succeeded in penetrating the Kremlin. Also, many of the practices referred to above are indulged in, to a lesser degree, by other agencies. However, such practices become dangerous and have disastrous effects when carried out practically in the public eye, and, as far as can be determined, with a minimum of supervision. The political implications are obvious, especially in view of Rusty's increasing sphere of activity (a former CIC agent now working for Rusty claims they have recently set up a North African Section).

As a local cynic put it: "American Intelligence is a rich blind man using the Abwehr as a seeing-eye dog. The only trouble is---the leash is much too long".

~~SECRET/RELEASE~~
TO GERMANY ONLY

MM

63. Acting Chief, Karlsruhe Operations Base to Chief, FBM, "RUSTY," 19 August 1948

SECRET
SECRET/RELEASE
TO GERMANY ONLY

MGKA-2722

19 August 1948

Chief, Foreign Branch "M"
Chief of Station, Karlsruhe, Germany

Operational

RUSTY

1. This memorandum will be more in the nature of a general comment reflecting the consensus of operating personnel of KOB. The comments are of a general nature and do not reflect an intensive attempt to report on the result of penetration and consequent extensive knowledge of RUSTY operations.

2. RUSTY came first to the writer's attention in July of 1946 when CIC Region VI (Bamberg) constantly ran across a series of German individuals who claimed to be American intelligence agents. CIC at that time was under the impression that they were our agents and therefore made whatever information they picked up available to us. We were able to maintain close liaison with CIC and, as a result, received considerable material which was at that time forwarded to FBM by

Germans were found to be in possession of typewritten copies of the most comprehensive sort. In fact one copy procured by us contained the then existing complete KRI's of G2 USFET. The German individuals who had possession of these KRI's were all former Abwehr people. Some of the agents employed were SS personnel with known Nazi records and, in most cases, undesirable people. Recruiting methods then employed were so loose that former German officers and non-coms were blindly being approached to work for American intelligence in espionage activity directed against the USSR. In the recruitment methods no attention was paid to the character of the recruits, security, political leanings or quality with the result that many of the agents were blown almost immediately. Recruitment tactics included statements that were of a downright subversive nature, such as obligating

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FBM-2
COS
KOB files
Registry

orig sent to RI
27 April 1957

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MGKA-2722

the potential agents with an oath of allegiance to a cause going over and above material advantages. The recruiting methods indicated a highly nationalistic group of Germans who could easily become the nucleus of serious subversive activity against any occupying power. At the same time, the distribution of operational supplies, money etc. was so loose and elaborate that the influence on the black market certainly was considerable. Since then RUSTY activity has continuously come to our attention. The leading figures in the operation have been named repeatedly by such agents as [redacted] and [redacted]. They have expressed grave concern about the security of RUSTY. We have repeatedly run across new recruits who specifically asked whether or not the recruitment had anything to do with an organization quite easily identified by us as RUSTY. Such candidates often stated that they would not be interested in working for American intelligence if it had anything to do with this operation. At the time of the arrest of Col. Pinkert by the Russians, the [redacted] ceased activity until they were assured that their operation had nothing to do with RUSTY.

3. The general consensus is that RUSTY represents a tightly-knit organization of former German officers, a good number of which formerly belonged to the German general staff. Since they have an effective means of control over their people through extensive funds, facilities, operational supplies etc., they are in a position to provide safe haven for a good many undesirable elements from the standpoint of a future democratic Germany. Most of these officers are unable to find employment in the German economy and they are therefore able to maintain their former standard of living without having to put up with the present difficulties of life in conquered Germany. They are likewise able to maintain their social standing as former officers and to continue their own study in the military field and continue training along military lines. The control of an extensive intelligence net makes it possible for the leaders to create a cadre of officers for the perpetuation of German general staff activity. The organization of RUSTY makes it possible for them to continue a closely knit organization which can be expanded at will. These facts are known to leading German people who, in American support of this organization, see a conflict with what is announced American policy towards a future Germany. There is every reason to believe that these facts will be used, not only in German circles but also by other nations, to undermine confidence of the public in the sincerity of American policy. This has been expressed by people well known to us although such expressions have been of a cautious nature for the time being.

4. Some of our people have expressed the thought that this operation may have decided bearing and influence on future

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TO GERMANY ONLY

63. (Continued)

SECRET/RELEASE
TO GERMANY ONLY

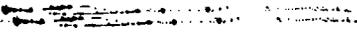
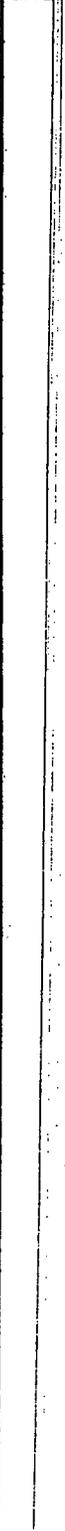
MGKA-2722

American intelligence activity in Germany. Since the whole operation is considered American sponsored, it is obviously believed to reflect the attitude of American intelligence personnel. Highly desirable and reliable people would not wish to affiliate themselves with intelligence operations as long as they are believed to mean cooperation with the type of people described above. The latter are considered by many German to be militaristic, nationalistic and at the bottom of Germany's difficulties in the past.

[
]
Acting Chief, KOB

SECRET/RELEASE
TO GERMANY ONLY

SECRET



64. DCI to Chamberlin, 31 August 1948

~~TOP SECRET~~ SECRET/RELEASE
TO GERMANY ONLY

31 AUG 1948

MEMORANDUM FOR: Lieutenant General S. J. Chamberlin
Director of Intelligence
General Staff, U. S. Army

This memorandum is written in the belief that the information
herewith set forth may be of use and interest to you.

We are in receipt of the following statement from a reliable in-
dividual residing in this country:

"... a certain operation, the details of which are
not known, formerly developed out of Oberursel by
Twelfth Army Group is now in danger of disintegrating
completely and its valuable resources lost unless an
effort is made to pull it together."

Since this Agency has no operation which would fit this descrip-
tion, we assumed that it might refer to the project in Germany known as
"Rusty". This belief tends to be substantiated by the following letter
which was recently received by Mr. Samuel Bossard, one of our repre-
sentatives in London and the gentleman who at one time studied the
"Rusty" operation at General Vandenberg's behest:

"Dear Mr. Bossard: We are often speaking about you
and the time you were with us. The reasons were frequent
unnecessary business complications caused by a very
dilettante management. In spite of that our firm develops
very well, and our big boss told me just some days ago
that our firm became a very important factor of the whole
concern. But there are some dangerous points which have
to be handled in the right way to prevent increasing dis-
appointment and perhaps a strike of our employees. Anyway
I need your personal advice as a friend concerning certain
business questions if possible soon. Therefore I take the
opportunity to invite you and to ask you to come to us to
M. For some days as soon as you can. Please give notice
to Eric when you will come. Hoping to see you soon.

"Sincerely yours,

/s/ R. Gunner"

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TO GERMANY ONLY

DEFENSE INTELLIGENCE AGENCY
CLASSIFICATION
SECRET
BY AC [redacted]
DATE 14 MAR 1961

~~TOP SECRET~~ SECRET
REGISTRY COPY

64. (Continued)

~~TOP~~ SECRET SECRET/RELEASE
- 2 - TO GERMANY ONLY

The foregoing letter was dated 29 July 1948 in Bern, Switzerland, and was undoubtedly written by General von Gehlen, who is the senior German officer in the "Rusty" operation. Obviously, Mr. Bossard has taken no action in response to the invitation contained in the letter.

Signed
R. H. HILLENKOETTER
REAR ADMIRAL, USN
DIRECTOR OF CENTRAL INTELLIGENCE

Note: Hand-carried by DCI

SECRET/RELEASE
TO GERMANY ONLY
~~TOP~~ SECRET

65. Chief of Station, Karlsruhe to Chief, FBM, "RUSTY," 15 October 1948

SECRET/RELEASE
TO GERMANY ONLY OFFICIAL DISPATCH

MGKA-3583

VIA: _____
SPECIFY AIR OR SEA POUCH

DISPATCH NO.: _____

SECRET
CLASSIFICATION

TO : Chief, Foreign Branch "M" _____ DATE: 15 October 1948
FROM : Chief of Station, Karlsruhe
SUBJECT: GENERAL - Operational

SPECIFIC - RUSTY *Critchfield*

1. Prior to Mr. _____ arrival, I reviewed our complete RUSTY file and discussed the problem with _____ and _____. We concluded that for the time being, RUSTY has a future with the Army, that it should be penetrated or at least carefully watched and reported upon, and that we should pay particular attention to its attempts to become the official German intelligence service. These aspects of the operation were broached to Mr. _____ upon his arrival, and our most recent reports, including Munich's verbal report that RUSTY is making enormous headway in penetrating the German Land Governments, were brought to his attention. Mr. _____ instructed us to begin our penetration and observation work.
2. During our discussion of RUSTY with Colonel Schow and General Walsh on the succeeding day, Mr. _____ was asked whether we were assisting _____ in their "sniping" attempts. He answered that we certainly were not in that business. Mr. _____ explained the substance of a letter he had sent to General Chamberlain to the apparent relief of both Walsh and Schow. I asked how they considered RUSTY's chances as a future German intelligence service. Walsh dodged the issue by saying that most of the boys wanted to live elsewhere in the world, whereas Schow admitted that if a German military establishment were ever permitted, RUSTY would make every attempt to associate itself with it. I pointed out that this might not be too easy politically, since RUSTY is widely known among German politicians, many of whom are adverse to it, and since the _____ will undoubtedly sponsor their own German intelligence service - possibly something growing out of the present SPD Ost Bureau.
3. Once again we discussed the question of passing information to the Intelligence Division regarding security hazards or derogatory reports having to do with RUSTY. It was agreed that all material of this nature would come to me and I would pass it to Colonel Schow. I

British Intelligence in London

British

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CLASSIFICATION

Engr. Repro. Plant - 20 - Oct 47 - 288

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TO GERMANY ONLY

believe that Mr. [redacted] may wish to have other Stations informed of this procedure; therefore, it is suggested that you bring this to his attention.

4. With these points in mind, I recommended to Mr. [redacted] that we consider making an arrangement with the Army whereby we would again be permitted to study RUSTY and on the basis of our findings, decide whether we should take it, or any part of it, over. Mr. [redacted] suggested that I refer this to you in a memorandum, giving my reasons in detail. He also told me to report our discussions to Mr. [redacted].
5. When Mr. [redacted] and I went up to Frankfurt, we were immediately confronted by General Walsh with the RUSTY problem. According to General Walsh, the bad news had finally come through, and he had been instructed to cut the operation, preserving only those parts which had to do with the production of "order of battle" information. He appealed to [redacted] for help and [redacted] agreed to finance RUSTY for a limited period of time, while our Organization examined those parts of it which the Army could not afford to keep. Mr. [redacted] stated that we would [redacted] (which is in line with our thinking and which had been authorized by Mr. [redacted], to which neither Walsh nor Schow made any objection. Colonel Schow asked that Mr. [redacted] appoint someone to be in charge of RUSTY and Mr. [redacted] turned him down.
6. The discussion of RUSTY was not carried beyond this point. I gather that Mr. [redacted] intends to think the matter over in Washington, to consult with the Staff there, and to direct any further moves. I have advised the Munich Station to assemble materials on RUSTY from overt and easily accessible sources, but will await word from you before negotiating further with the Army.
7. In view of the size of the problem, I recommend that our Munich Base be instructed to ~~take care of~~ ^{take care of} the examination of RUSTY on the ground, that one GIS specialist and one RIS specialist, at least, be put on TDY to Munich to assist in the examination, and that the results of the examination be ~~examined~~ ^{reviewed} here in Germany with responsible Washington officials participating. It is too early to discuss or plan the means of control to be exercised over those parts of RUSTY which we might wish to acquire.

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TO GERMANY ONLY

66. Cable, SO to Karlsruhe, 27 October 1948

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TO GERMANY ONLY
OUTGOING CLASSIFIED MESSAGE

FORM NO. 33-0
DEC 1947

CENTRAL INTELLIGENCE AGENCY

SECRET

28 OCT 28 14 50 Page No.

To:	KARLSRUHE	ROUTINE
From:	SPECIAL OPERATIONS	27 OCT 48
Confirmation:	COPS (1)	SECRET out 70606
Information:	ADSO. (2-3)	

Paraphrase Not Required. Handle as SECRET Correspondence per Pars. 51 (1) 60A AR-380-5

~~SECRET~~ WASH 4193
[] EYES ONLY

TO: KARL (~~SECRET~~) CITE: WASHA (FROM ~~SECRET~~)

RE ~~SECRET~~

1. RUSTY PROBLEM CONSIDERED HERE IMMEDIATELY UPON MY RETURN. AFTER DISCUSSION WITH INTERESTED STAFF OFFICERS INCLUDING ~~SECRET~~ WHO CONDUCTED INVESTIGATION TWO YEARS AGO, IT DECIDED THAT RUSTY SHOULD BE REEXAMINED ALONG SAME LINES AS UNDERTAKEN BY ~~SECRET~~, IN ORDER TO ESTABLISH A) ITS CURRENT ORDER OF BATTLE IN DETAIL INCLUDING OPERATIONS IN COUNTRIES OUTSIDE GERMANY, B) WHAT PARTS THEREOF (1) SHOULD BE [] (2) WOULD BE OF IMMEDIATE INTEREST TO THIS ORGANIZATION, (3) SHOULD BE LEFT WITH ARMY, (4) SHOULD BE LIQUIDATED. SINCE JOB SHOULD BE COMPLETED AS QUICKLY AS POSSIBLE, INVESTIGATOR SHOULD START WITH COLONEL SCHOW AND GO DOWN LINE EXACTING MAXIMUM INFORMATION FROM ARMY AND GERMAN CHIEFS ALIKE. PROBLEMS OF CONTENT SHOULD BE REFERRED TO WASHINGTON RATHER THAN ATTEMPTING TO ASSIGN SPECIALISTS FROM HERE TO FIELD TO HANDLE SPECIFIC PROBLEMS

Critchfield
2. ASSIGN ~~SECRET~~ AS CHIEF INVESTIGATOR. IF HE NEEDS HELP FROM TIME TO TIME, ~~SECRET~~ AND/OR ~~SECRET~~ SHOULD BE MADE AVAILABLE TO HIM. WE ARE FORWARDING ~~SECRET~~ REPORT AND OTHER RUSTY DOCUMENTS AT ONCE. THESE OUT OF DATE BUT CAN BE USED AS BASIS FOR NEW INVESTIGATION. WILL EXPECT PRELIMINARY REPORT WITHIN ONE MONTH FROM START OF INVESTIGATION WITH INDICATION HOW MUCH MORE WILL NEED TO BE DONE TO COMPLETE INVESTIGATION IN GERMANY. YOU WILL BE KEPT INFORMED RESULTS ANY FINDINGS HERE ON ASPECT OF OPERATION OUTSIDE GERMANY. SENSE OF

RELEASING OFFICER

ORIGINATING AND COORDINATING OFFICERS

AUTHENTICATING OFFICER

TOD:

SECRET

Copy No. 1

IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

SECRET **RELEASE**
TO GERMANY ONLY

66. (Continued)

SECRET/RELEASE
^{SECRET}
TO GERMANY ONLY

WASH 4193
[REDACTED]

PAGE # 2
[REDACTED]

OUT 70606

THIS INITIAL REPORT SHOULD BE CABLED HERE SO THAT IT CAN THEN BE DECIDED HOW TO PROCEED.

3. CABLE WILL BE SENT FROM [REDACTED] TO GENERAL HALL TO CONFIRM YOUR AUTHORITY TO BEGIN INVESTIGATION. THIS CABLE INSTRUCTS YOU TO CALL UPON GENERAL HALL AND REQUESTS HIM TO LEND YOU EVERY ASSISTANCE IN YOUR MISSION. FINDINGS ARE TO BE REPORTED THROUGH ME TO [REDACTED]

DONALD H. GALLOWAY

[REDACTED]
R. HELMS

TOD: 2205Z 27 OCT 48

SECRET

SECRET/RELEASE
TO GERMANY ONLY

67. [Helms] to COS, Karlsruhe, "RUSTY," 2 November 1948

~~SECRET/RELEASE~~
~~TO GERMANY ONLY~~
~~OFFICIAL DISPATCH~~

~~SECRET~~
43

VIA: _____
SPECIFY AIR OR SEA POUCH
AIR

DISPATCH NO. _____
MGKW 914

~~SECRET CONTROL~~
CLASSIFICATION

TO _____ DATE: _____

FROM : Chief of Station
Karlsruhe - _____

SUBJECT: GENERAL _____
SPECIFIC: _____

Fletcher M. Knight

RUSTY

WASH 4193

REFERENCE:

CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Cancelled
Changed BY AUTHORITY
Name _____
Office _____
Date 14 MAR 1967

1. As an aid to the reexamination of subject operations, there is forwarded herewith _____ report which resulted from his investigation two years ago. As you know no action was taken on the recommendations contained in that report. Also with a two year interval since the investigation was made, we cannot on the basis of that report make any specific recommendations as to which sections of the operation would be of immediate interest to us. Nevertheless, the responsibility for reviewing RUSTY is ours and decisions will have to be made. Arrival at these decisions must of necessity be somewhat arbitrary since neither personnel nor time is available for lengthy, meticulous investigations. Your guide will have to be our primary interest in strategic intelligence with sights set toward Eastern operations. He must face the fact that whatever parts of RUSTY are taken over will have to be managed by personnel now available to you. There is probably no place for projects such as the one created to maintain watch over developments in the fields of mathematics and physics.

2. Even after the enormous task is completed of deciding which operations we want, which should be left to the Army, and which should be liquidated, there still remains what appears the most difficult job of all: the actual transfer and liquidation. With an organization as closely-knit and as nationalistic as this one, complete liquidation is highly improbable. Nonetheless, control of operating funds will exert a certain amount of pressure on the top echelon German leaders.

3. Another factor which should be kept in mind is the conflict between personalities which exists within the organization. Strife has been present between BAUN and GEHLEN, and probably still exists if BAUN has not been removed. In the opinion of _____ BAUN is the more dangerous personality with which to deal. He has exercised complete personal control over his subordinates and utilizes every available means to maintain this control.

RELEASING OFFICER _____

COORDINATING OFFICER _____

R. HELMS
AUTHENTICATING OFFICER

~~SECRET CONTROL~~
CLASSIFICATION

TM NO. 51-29
1947

(789)

~~SECRET/RELEASE~~
~~TO GERMANY ONLY~~

67. (Continued)

~~SECRET/RELEASE~~
TO GERMANY ONLY

~~SECRET~~

~~CONTROL~~

- 2 -

4. Attached also are charts III and IV which are described in Section II of [redacted] report. Operations during the past two years should indicate what success the organization has achieved along the lines of Chart III, which shows "the potentialities of the organization in what is termed 'Reconnaissance in Depth', long range possibilities".

5. Also forwarded is a G-2 report, dated 1946, on the background and activities of subject personnel before and after the operation was initiated. This report furnishes information only on top level personnel, and it will be necessary for the investigator to visit organization leaders at their field establishments or residencies in order to obtain information from the operational records of the organization. Undoubtedly some of these leaders will refuse to divulge the identities of those in the lower echelons, in which cases [redacted] is probably the only solution. Needless to say, the more detailed the personnel information, the more easily [redacted] will be accomplished.

6. At this point we must inject a note of warning to the investigator. Although not revealed by [redacted] during his investigation, his true identity and London address became known to GEHLEN.

7. We fully realize the size of subject organization and the magnitude of the task of investigation and shall endeavor to furnish you every assistance. It is hoped that forthcoming discussions here with Lt. Col. DEANE will be fruitful.

- Enclosures: 4
- 1 - [redacted] Report
 - 2 - G-2 Report
 - 3 - Chart III
 - 4 - Chart IV

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TO GERMANY ONLY

~~SECRET~~ ~~CONTROL~~

68. [] to COS, Karlsruhe, "RUSTY," 18 November 1948

SECRET/RELEASE
TO GERMANY ONLY
OFFICIAL DISPATCH

~~SECRET~~
#3

VIA: SPECIFY AIR OR SEA POUCH
AIR

DISPATCH NO.

MGKW-997

~~SECRET~~
CLASSIFICATION

TO: _____ DATE: _____
FROM: Chief of Station Karlsruhe *EYES ONLY [] and Caithfield* 18 November 1948
SUBJECT: ~~GENERAL~~ *RUSTY operations*
SPECIFIC: _____

CLASSIFICATION
Cancelled
Changed to *Secret*
H.A. _____
CIN _____

WASH 4867

REFERENCE:

1. As indicated in referenced cable, a discussion was held recently with Lt. Col. DEAN with a view toward debriefing him as fully as possible on subject operation. DEAN left Germany in late 1947 and has not been connected with the operation since that time. Furthermore, he stated that "he has been trying to forget the whole thing", and thus was not able to recall details. Salient points discussed were presented in referenced cable, and additional information follows.

2. RUSTY maintains three field offices located in Frankfurt, Munich and Karlsruhe, with district headquarters at Munich under HALTER; at Esslingen under NOOS; Karlsruhe - CI section under BENZINGER; Aschaffenburg under HENDEL; Salzburg under MALLNER; and another office near Fulda. Theoretically the district headquarters are all independent; however, all district leaders are known to each other. Although DEAN could not specifically state the number of individuals within the organization who know all that goes on, he feels this knowledge is common to all on the district chief level and above.

3. NOOS, a Latvian, is considered to be one of the most efficient men in the organization. He and his subordinates, who are apparently well-trained, were sources of little trouble. His field lies in the penetration of the Baltic countries through the Soviet and Poland. Reportedly he was quite successful particularly in reporting on the Soviet sons of Germany.

4. BENZINGER is one of the few operations chiefs who during the war was stationed on the western front. He claims entree to the _____ through a brother living in the _____ zone, and also receives information on the _____ through Otto WAGNER @ DELIUS. According to _____ BENZINGER is in the wine business and uses it as a cover in contacting his informants. Meetings are not held with them in Karlsruhe. BENZINGER is also said to have connections in the German police. Perhaps _____ is aware of BENZINGER's activities, since he too has become involved with Otto WAGNER.

British

British IS

French IS

DE:10

RELEASING OFFICER _____ COORDINATING OFFICER _____ AUTHENTICATING OFFICER _____

~~SECRET~~
CLASSIFICATION

FORM NO. 51-29
APR 1947

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68. (Continued)

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TO GERMANY ONLY

- 2 -

5. Herbert von MALLNER (reportedly an alias), head of the Austrian branch who maintains headquarters at Gemünden as well as Salzburg, has previously come to our attention in Vienna. He was last reported in [redacted] of 25 February 1948 as handling a group of Rumanians in Austria. *MSBA 602*

6. As for BAUN, DEAN stated that he was long ago detected as a dangerous individual, engaged in setting up his own organization and planning to leave Germany. The clamps were put on him and he was removed as a director of operations and placed in a mountain retreat near Oberursel where he was retained as an adviser. However, even there he continued to keep in contact with his followers through his wife and son. No one actually ever replaced BAUN. Von GEHLEN more or less carried on the direction of operations. While in Europe last summer, DEAN heard that BAUN was going to the Near East, probably to Cairo to work with General DRO.

7. DRO, whose true name is Trostamad GANAIAH, *CSSIC BAOR* has come to the attention of this organization in the Near East. In a [redacted] report of 1946 on one SCHULER, GANAIAH was reported as a contact of Ast Bucharest, who was turned over to BAUN during the war. At that time his task was to carry out intelligence activities in Russia with the help of the Armenian Freedom Organization. DEAN met GANAIAH through BAUN, and took the former to Rome where he was placed on a plane for Cairo. The intention at that time was for GANAIAH to solicit the aid of the Armenians who were holding a world meeting in Cairo. DEAN had also sent a man from Paris to Beirut to organize Armenians and GANAIAH was to visit this individual in Lebanon. Later it was decided that instead of returning to Germany, GANAIAH should remain in the Near East and attempt to penetrate the USSR with the help of dissatisfied tribes east of the Caucasus. There were no results from this operation prior to DEAN's departure from Germany in 1947, but he has heard that GANAIAH is doing quite well. Reportedly he is in communications with the RUSTY head in Munich but the exact channels are not known. This Armenian group in the Near East does have some sort of communications with persons in Boston and thence to one MARKEDIAN in San Francisco. The latter is a friend of DEAN and according to [redacted] a contributor of large sums to Armenian emigre activities.

8. Of extreme interest to us was DEAN's statement that an official tie-up with the [redacted] police exists. At the time BAUN was quite friendly with some head in probably the cantonal police, but the contact as it exists now probably results from von GEHLEN's contacts. As a result of this liaison RUSTY passes certain types of information to the [redacted] who in turn aid in border crossing, issuance of visas, etc. We shall of course be most interested in learning further details which Captain Eric WALDMAN probably can supply. Attempting to come up with an answer on this Swiss angle, it has been suggested that [redacted], a former [redacted], may be the RUSTY link. [redacted] has held a high position in the [redacted], is closely linked with [redacted] and [redacted] through his secretary [redacted] and [redacted] has been on the fringe of the intelligence field for some time and is known to the [redacted]

Swiss

Swiss

Swiss Federal Council

German Swiss Italian Catholic Church Circles

Swiss Government

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68. (Continued)

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- 8 -

9. A tie-in with ^{Spain} might also exist in ^{Suisse} through the ^{Spanish IS} representative in ^{Geneva}. DEAN only knows that a tie-up with ^{Spain} does exist and that the RUSTY people were considering that country as a place of refuge. The invitations to ^{Spain} extended to Frau CANARIS and others as reported in ^{MSBA-1224} may also be involved in this complex.

10. The ^{Vatican} contact reported in referenced cable apparently originated with Von GEELEN's brother in Rome who has lived in Italy for many years, is a banker by profession, and has many friends in religious circles. Through development of this contact RUSTY is said to receive ^{Vatican} intelligence reports.

11. According to DEAN, RUSTY has been concentrating on reconnaissance in the Soviet zone of Germany and has not had much success with Eastern operations. The same has been true in its dealings with emigres who have been sources of much trouble. Contact man with the Ukrainians is one GOHLI, who is subordinate to HALTER, and maintains headquarters at Starnberger See.

12. The estate at Starnberger See, which is a livestock farm, also houses an intellectual group, which prepares studies on the USSR but which also proved unsuccessful. This group is made up of specialists formerly associated with the Ostministerium, and includes former professors of geography, topography, cartography, philologists and linguists. It is a suspect group with probable strong Nazi records.

13. Another group which will probably require delicate handling during investigation is the cryptographic unit, located at Oberursel. ^[] during his investigation, only happened upon it by chance. It operates apparently under the cognizance but not the jurisdiction of ASA. ^[] was told by ASA not to snoop around this unit and that his advice was not needed.

14. RUSTY had also maintained a cover X-ray unit which was used to interrogate returning prisoners of war, when they received physical examinations. This unit apparently encountered difficulties with a group from ECIC. According to ^[] it had been planned to integrate this unit with a group at the University of Marburg, and the director of the university had approved this cover. However, it is unknown whether this project developed further.

15. The last miscellaneous bits concern two individuals considered to be efficient men. One is BAUM's former assistant, one DUBENTER (an alias), who can be further identified only by the fact that the small and ring fingers of his right hand are maimed. The other is one ROHE, head of a plastics firm in Hamburg, whose industry provides cover and who contributes funds toward the support of the operation.

16. Much of the information provided above is quite sketchy but we hope it may be of some aid in ^{Catchfield} investigation.

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737

69. Chief, MOB [Critchfield] to Chief, FBM, "Bi-Weekly Letter,"
(excerpts), 4 December 1948

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SECRET

27/12
MGMA - 859
[REDACTED]
[REDACTED]

AIR

4 December 1948

Chief, FBM

Chief of Station, Karlsruhe

Operational

Bi-weekly Letter

1. The RUSTY investigation begun 18 November has progressed satisfactorily. The form of the investigation during the first two weeks was somewhat determined by the fact that [REDACTED] appeared at the 7821 Composite Group as the assistant to Colonel Charles V. Bromley, DA Intelligence Division Staff Officer sent on a special mission to Germany to investigate the operation. Colonel Bromley returned to Frankfurt 2 December enroute to Washington. From my point of view this arrangement proved highly advantageous. Colonel Bromley appeared to be a practical and thorough investigator and considering the limited amount of time he was able to spend here, departed surprisingly conversant with the scope and character of the operation. Because of the fact that Colonel Bromley has, by his own statement, no background in intelligence work and because his time was so limited, his report will be somewhat inconclusive on operational details.

Critchfield

2. Prior to our arrival at the 7821 Composite Group both the American and German Staffs had been advised by General Walsh that an investigation by representatives of the DA Intelligence Division, and CIA could be expected in the near future. Within an hour after our arrival at the 7821 Composite Group Headquarters one of the top German staff officers asked, "And how is Sam Bossard? Of course you know him--coming from the same outfit". It is obvious that at least the top Germans have participated, during the last two or three years, in numerous conversations with high level Army intelligence personalities on many of the problems of our national intelligence framework. In spite of these items I do not feel that there exists at this point any great security problem.

3. Colonel "RUSTY" (nickname for 25 years) PHILPS, former CO of ECIC at Oberursel has taken command of the 7821 Composite Group. Our first impressions are that the Army has put the right

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TO GERMANY ONLY - 2 -

man in the right job. His cooperation thus far leaves nothing to be desired. In general, the same can be said of the German staff.

4. From the start we have adopted the hard and fast rule of keeping our functions at the Base and those at the 7821 Composite Group completely separate. Obviously there is a great temptation to utilize our accessibility to HUSTY files to answer the questions stemming from our always present operational conflicts with HUSTY. Such tactics on our part would certainly be recognized and nothing could damage our relationship with the German and the US Staffs more decisively.

Critchfield 5. In compliance with a request to [redacted] from [redacted] the administrative staff of the Base has been increased by the assignment of [redacted] during the past two weeks. This request was based on three considerations:

- a. the staff of MOB prior to the arrival of [redacted] and the initiation of the HUSTY investigation was barely able to keep abreast of administrative matters;
- b. the desirability of laying the administrative groundwork for any possible increase in the size or activity of the Base with respect to USSR operations or the ultimate disposition of HUSTY; and,
- c. the hope that each of the two administrative officers will, after discharging his administrative functions, have some time available for duties which will give him training in operational duties and give me the opportunity to assess his potentialities as a future case officer.

6. [redacted]

7. [redacted]

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70. Cable, SO to Karlsruhe, 14 December 1948

Form No. 86-6
April 1947

SECRET/RELEASE
TO GERMANY ONLY
OUTGOING CLASSIFIED MESSAGE

(753)

CENTRAL INTELLIGENCE GROUP

SECRET

PAGE No.

To: KARLSRUHE ROUTINE
 FROM: SPECIAL OPERATIONS 14 DEC 48
 CONFIRMATION: FBM (1-2) [REDACTED] OUT 73003
 INFORMATION: ADSO (3-4), COFS (5), CRD (6)

Paraphrase Not Required. Handle as SECRET Correspondence per Pars. 51 (1) 60A AR-380-5

WASH 6332

[REDACTED] EYES ONLY [REDACTED]
TO: KARL [REDACTED] CITE: WASHA (FROM [REDACTED])

NEED IMMEDIATELY BRIEF CABLED SUMMARY FINDINGS TO DATE ON RUSTY. REALIZE YOU PLANNING TO REPORT AROUND 18 DECEMBER BUT DEVELOPMENT HERE NECESSITATES THIS EARLIER INTERIM STATEMENT FROM YOU.

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D. H. GALLOWAY WGT R. HELMS
 RELEASING OFFICER ORIGINATING AND COORDINATING OFFICERS AUTHENTICATING OFFICER

TOD: 2135Z 14 DEC 48
 SECRET COPY No. /
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U. S. GOVERNMENT PRINTING OFFICE 16-52326-1

71. Cable, Karlsruhe to SO, 17 December 1948

**SECRET/RELEASE
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INCOMING CLASSIFIED MESSAGE

Form No. 85-6
April 1947

(751)

CENTRAL INTELLIGENCE GROUP

~~TOP SECRET~~ **SECRET**

PAGE No.

FROM: KARLSRUHE PRIORITY
 TO: SPECIAL OPERATIONS 17 DEC 48
 ACTION: AMSG (1) ~~TOP SECRET~~ IN 19522
 INFORMATION: COPS (2), FBM (3)

Paraphrase Not Required. Handle as TOP SECRET Correspondence per Pars. 51 (1) 60A AR-380-5

KARL 2925

~~TOP SECRET~~ EYES ONLY Critchfield
 TO: WASHA ~~TOP SECRET~~ INFO: MUNI CITE: KARL (FROM: ~~TOP SECRET~~)

1. REF YOUR DIRECTIVE WE REVIEW RUSTY TO DETERMINE WHATS (GROD VEATS) TO BE

- A. C J
- B. OF INTEREST
- C. LEFT TO ARMY
- D. LIQUIDATED

WE FIND CLOSELY INTEGRATED SERVICE NOT SUSCEPTIBLE DIVISION AND SEPARATE SPONSORSHIP VARIOUS PARTS. GERMAN ORGANIZATION HEADED BY GEHLEN INCLUDES SECTIONS FOR COLLECTION, EVALUATION AND COLLATION, REPORT PRODUCTION, PRESS REVIEW, TACTICAL SIGNAL INTELLIGENCE AND CRYPTANALYSIS, COMMUNICATIONS, COVER AND DOCUMENTATION AND OPERATIONAL AND INTERNAL SECURITY.

2. U.S.-GERMAN RELATIONSHIP IS CONTRACTUAL WITH U.S. ELEMENT PROVIDING LOGISTICAL SUPPORT AND FRONTING FOR GERMANS IN PROVIDING SUPPORT FACILITIES AND COVER IN WESTERN ZONES. CURRENTLY OPERATION RECEIVES \$125,000 MONTHLY PLUS SUPPORT FROM AIRFORCE SUPPLY AND GERMAN ECONOMY. U.S. INFLUENCE IN OPERATIONAL MATTERS PRIMARILY IN FORM OF CONTROL OF PURSE STRING AND FURNISHING E.E.I. WHICH GERMANS ATTEMPT TO ANSWER. NO EVIDENCE AT THIS TIME THAT OPERATIONS ARE DIRECTED TO MEET ANY INTELLIGENCE REQUIREMENTS NOT LAID DOWN BY

TOR: ~~TOP SECRET~~

~~TOP SECRET~~ **SECRET**

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71. (Continued)

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SECRET

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IN 1952

U.S. ELEMENT. OPERATIONAL PROCEDURES AND TECHNIQUES NOW BEING STRESSED ADHERE GENERALLY TO WELL ESTABLISHED PRINCIPLES FOR SOUND INTELLIGENCE OPERATIONS. GEHLEN ADMITS THAT PRESSURE FOR IMMEDIATE PRODUCTION IN 46 AND 47 NECESSITATED VIOLATING MOST RULES AND HOPES THOSE DAYS ARE BEHIND.

3. CONVICTION THAT TIME OF NATIONALISM IS PAST AND ONLY HOPE LIES IN WESTERN EUROPEAN AND ATLANTIC UNION. CONCEPT APPEARS TO BE SINCERE MOTIVATION WITH GEHLEN WHO MAKES IDEOLOGICAL INDOCTRINATION A VITAL ELEMENT OF TRAINING HIS ORGANIZATION. SUCCESS THIS INDOCTRINATION CANNOT BE JUDGED. OTHERWISE, RUSTY CAN BE SAID TO SUBSCRIBE TO TRADITIONAL CONSERVATIVE POSITION OF GENERAL STAFF CORPS AND ABWEHR. RUSTY APPEARS TO REMAIN ALOOF FROM POLITICAL ACTIVITY BUT SUBSCRIBES TO FEDERALIST CONCEPT FOR WESTERN GERMAN STATE.

4. GEHLEN MOST IMPRESSIVE MEMBER OF RUSTY STAFF AND IN OUR OPINION DOMINATES ORGANIZATION. EASING BAUN OUT OF POSITION AS HEAD OF COLLECTION EFFORT A YEAR AGO AND PUTTING HIM ON ICE HAS BEEN GEHLEN'S NUMBER ONE PERSONNEL PROBLEM BUT SEEMS TO HAVE BEEN SOLVED WHILE STILL SALVAGING BAUN'S SERVICES AND 30 YEARS EXPERIENCE WITH USSR. BAUN NOW ENGAGED IN STRATEGIC PLANNING MIDDLE EAST AREA AND WILL SOON LEAVE FOR TEHRAN.

5. RUSTY HAS BEEN ESSENTIALLY A TACTICAL OPERATION WITH MAIN EFFORT IN EASTERN GERMANY AND WITH LINES INTO POLAND, CZECHOSLOVAKIA AND BALKANS. ARMY AT WASH AND EUCCOM LEVEL HAS BEEN RELUCTANT TO GIVE POLICY DIRECTIVES TO OPERATION AND EXCEPT FOR BROAD PICTURE WHICH COULD BE DRAWN FROM EEI GEHLEN HAS RELIED CHIEFLY ON FRAGMENTARY AND DESULTORY INSTRUCTIONS OBTAINED IN CONVERSATIONS WITH EUCCOM AND WASH INTELLIGENCE DIVISION OFFICERS VISITING PROJECT. THESE SOMETIMES CONFLICTING AND NOT CONSISTENT WITH LOGISTICAL AND OTHER SUPPORT FORTHCOMING FROM EUCCOM.

6. AIRFORCE'S GREATEST INTEREST IN RUSTY IS IN RESULTS OF RUSTY MONITORING, DE-ING AND CRYPTOANALYZING SOVIET AIR FORCE RADIO TRAFFIC WHICH IS ONLY SOURCE OF TIMELY INFO ON SOVIET TACTICAL AIR ACTIVITY IN CENTRAL EUROPE.

7. RUSTY HAS WELL DEVELOPED POSSIBILITIES FOR STRATEGIC OPERATIONS AGAINST USSR THROUGH THE BALTIC AND THE MIDDLE EAST. WORK THIS FIELD HAS PROGRESSED TO POINT REACTIVATING ABWEHR SOURCES, EXAMINING RESISTANCE GROUP POTENTIAL, AND PLACING SOME NEW DEEP-COVER PERSONNEL IN APPROACH AREAS. ARMY LIMITED IN SUPPORT BY INABILITY EMPLOY MA SYSTEM, SMALL POTENTIAL EUCCOM, USFA, TRUST IN RENDERING OPERATIONAL

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SUPPORT, AND ALSO BY SEVERE LIMITATIONS FUNDS ALLOCATED STRATEGIC PROJECTS. IN ADDITION WORK DONE, RUSTY HAS WIDE RANGE OPERATIONAL SUGGESTIONS WHICH SUSCEPTIBLE TO DEVELOPMENT ON PROJECT BASIS. AIRFORCE HAS FURTHER SUGGESTED THAT RUSTY LOOK INTO POSSIBILITIES OF DEVELOPING AIR CREW EVACUATION AND ESCAPE ROUTES OUT OF USSR.

8. THE COVER AND LEGALIZATION OF RUSTY FACILITIES AND PERSONNEL IN THE WESTERN ZONES WILL BECOME AN INCREASING PROBLEM IN NEAR FUTURE. AS U.S. PARTICIPATION IN LOCAL GERMAN GOVERNMENTAL AFFAIRS DECREASES GERMANS IN RUSTY WILL HAVE TO DEAL WITH LOCAL GERMAN OFFICIALS WITHOUT BENEFIT OF THE U.S. MIDDLEMAN. COMMERCIAL OR GOVERNMENTAL AGENCY COVER WILL THEN BE ESSENTIAL. THE FORMER WOULD BE FAR MORE EXPENSIVE BUT THE LATTER WOULD OFFER A MORE DIFFICULT POLITICAL PROBLEM. PROBABLY THE BEST SOLUTION IS IN A COMBINATION OF THE TWO. THIS IS BELIEVED TO BE REAL CRUX OF THE RUSTY PROBLEM.

9. RUSTY HAS COMPLETED DETAILED EMERGENCY PLAN TO BE IMPLEMENTED IN EVENT OF WAR. PLAN INVOLVES POSSIBLE EVACUATION OF HEADQUARTERS TO SWITZERLAND AND THEN TO SPAIN. COORDINATION ON UNOFFICIAL LEVEL WITH SWISS, SPANISH AND FRENCH HAS BEEN DONE. CONTINUATION OF COLLECTION EFFORT AND RADIO COMMUNICATIONS FROM EASTERN AND WESTERN GERMANY PART OF PLAN. PLAN INTEGRATED WITH EUCOM EMERGENCY PLAN.

10. WHILE RUSTY NOW HAS EASTERN GERMANY ADEQUATELY COVERED WITH 600 AGENTS, AIM IS TO RAISE LEVEL OF PENETRATION OF ALL FACETS OF SOVIET AND COMMUNIST ACTIVITY IN SOVIET ZONE AND CONCURRENTLY TRIM SIZE OF OPERATIONS. IN GENERAL OPERATIONS IN THE BALKANS WILL BE REDUCED WITH PRIORITY GIVEN TO POLAND, CZECHOSLOVAKIA AND WESTERN USSR, AND WITH AN ADDITIONAL ATTEMPT BEING MADE TO ESTABLISH COVERAGE OF STRATEGICALLY CRITICAL POINTS WITH RADIO COMMUNICATIONS. THESE PLANS WERE BASED ON ASSUMPTION THAT THE PRESENT LEVEL OF SUPPORT WILL CONTINUE. STRATEGIC OPERATIONS IN BALTIC AND MIDDLE EAST AND SATELLITES CANNOT BE EXTENDED WITHOUT FURTHER SUPPORT.

11. WHILE GERMAN ELEMENT HAS MADE FULL UTILIZATION OF FUNDS AND U.S. DELEGATED AUTHORITY TO EXPAND THEIR INTELLIGENCE ACTIVITIES IT DOES NOT APPEAR THAT THEY HAVE "GONE INDEPENDENT". ARMY PRESSURE TO PRODUCE INTELLIGENCE IN WIDELY DIVERSE FIELDS AND GEOGRAPHIC LOCATIONS HAS STIMULATED UNPLANNED AND UNCONTROLLED GROWTH. SIZE AND SCOPE OF PRESENT ORGANIZATION, CURRENT POLITICAL DEVELOPMENTS IN GERMANY AND NUMBER OF U.S. AGENCIES OTHER THAN ARMY HAVING VALID INTEREST IN FUTURE OF RUSTY MAKE IT HIGHLY ADVISABLE THAT U.S. POLICY BE DETERMINED ON HIGHEST LEVEL POSSIBLE WITHOUT ~~ANY~~ FURTHER DELAY.

12. CIA, ARMY, AIRFORCE, NAVY AND POSSIBLY STATE ALL APPEAR TO HAVE INTEREST AT NATIONAL LEVEL (COL BROMLEY HOWEVER, INFORMED

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IN 19522

critic field
HE CONSIDERS IT INADVISABLE TO BRING STATE IN AT PRESENT EVEN ON WASH LEVEL). IN EUROPE THE EUROPEAN COMMANDER, HIS ARMY, AIRFORCE AND NAVY COMMANDERS WITH TACTICAL RESPONSIBILITIES ALL HAVE VITAL INTEREST IN MUCH OF RUSTY PRODUCTION. CIA REPRESENTATION HAS INTEREST IN PRODUCTION AND PARTICULARLY IN RUSTY STRATEGIC OPERATIONAL ACTIVITIES OUTSIDE OF GERMANY AND IN FUTURE GIS IMPLICATIONS. UNDER PRESENT CONDITIONS OPERATION BY OCCUPATION FORCE OF THE 7821 COMPOSITE GROUP TO PROVIDE COVER AND LOGISTICAL SUPPORT FOR THE OPERATION IS NECESSARY.

13. FACTS LEARNED IN LESS THAN A MONTH OF OBSERVING RUSTY ARE CERTAINLY NOT CONCLUSIVE. HOWEVER, IT IS CLEARLY APPARENT THAT MANY OF PROBLEMS FACING RUSTY STEM FROM BASICALLY UNSOUND ORGANIZATION AND INADEQUATE STAFFING ON THE U.S. SIDE. U.S. SIDE SHOULD BE REORGANIZED AND FOLLOWING REORGANIZATION AT LEAST A PERIOD OF ONE YEAR SHOULD BE CONSIDERED AS A TIME OF FURTHER TESTING AND REMOLDING IN WHICH RUSTY ACTIVITIES CAN BE COORDINATED WITH OUR BROADER NATIONAL INTELLIGENCE EFFORT. DURING THIS PERIOD THE PROBLEM OF RELATIONSHIP BETWEEN RUSTY AND WESTERN GERMAN GOVERNMENT AND WHOLE PROBLEM OF COVER FOR THE OPERATION SHOULD BE CONSTANTLY REVIEWED AS PATTERN OF THE WESTERN GERMAN STATE DEVELOPS.

14. ANY DECISION TO WITHDRAW A MAJOR PART OR ALL SUPPORT OF RUSTY WITHOUT TAPERING OFF PERIOD WOULD CERTAINLY EFFECT POSITION OF U.S. INTELLIGENCE VIS-A-VIS FUTURE GERMAN INTELLIGENCE SERVICE WHICH WILL INEVITABLY MATERIALIZE REGARDLESS DECISION ON RUSTY AT THIS TIME. IN FINAL ANALYSIS RUSTY IS REESTABLISHED GIS SPONSORED BY THE PRESENT DE FACTO NATIONAL GOVERNMENT OF GERMANY (IE MILITARY OCCUPATIONAL FORCES). BECAUSE THE 4000 GERMANS WHO COMPROMISE RUSTY CONSTITUTE GOING CONCERN IN INTELLIGENCE FIELD IT APPEARS HIGHLY PROBABLE THAT RUSTY WILL EMERGE AS STRONG INFLUENCE IF NOT DOMINANT IN A NEW GIS. ANOTHER FACTOR IS THAT RUSTY HAS CLOSEST TIES WITH GERMAN GENERAL STAFF OFFICERS THROUGHOUT GERMANY. IF GERMANY WILL, IN ANY EVENTUALITY, PLAY ANY ROLE IN A WESTERN EUROPEAN ~~PORTION CARBLED - BEING SERVICED~~ ALLIANCE THIS FACTOR IMPORTANT. ISSUE THEN APPEARS TO BE WHETHER IT ADVISABLE FOR U.S. COMPLETELY TO RELINQUISH CONTROL OF A RESURGENT ABWEHR AND NUCLEUS OF GENERAL STAFF WHICH HAS FOR THREE YEARS BEEN NURTURED BY THE U.S. OCCUPATIONAL FORCES. FROM INTELLIGENCE VIEWPOINT SEEMS DESIRABLE THAT WE CUT IN ON RUSTY AT POINT WHERE WE CAN CONTROL ALL CONTACTS AND OPERATIONAL DEVELOPMENTS OUTSIDE OF GERMAN TERRITORY.

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71. (Continued)

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IN 1952

15. THIS IS DOMINANT THOUGHT INFLUENCING RECOMMENDATIONS WHICH FOLLOW:

A. THAT FORM OF INVESTIGATION WHICH BEGAN THIRTY DAYS AGO BE MODIFIED AT THIS POINT BY DESIGNATING INVESTIGATOR AS TEMPORARY LIAISON OFFICER TO COMMANDING OFFICER 7821 COMPOSITE GROUP FOR CONCENTRATION AS FOLLOWING:

- ✓ 1) PROVIDE DIRECT CHANNEL TO CIA FOR CONSIDERATION ON PROJECT BASIS OF STRATEGIC OPERATIONS NOW IN DEVELOPMENTAL STAGE.
- ✓ 2) PROVIDE 7821 COMPOSITE GROUP COMMANDERS WITH ADVISOR ON INTELLIGENCE PROBLEMS WHICH TRANSCEND BOUNDARIES OF GERMANY.
- ✓ 3) PROVIDE CHANNEL BETWEEN CIA MISSION GERMANY AND 7821 COMPOSITE GROUP TO REDUCE EXISTING CONFLICTS AND UNDESIRABLE DUPLICATION OF U.S. INTELLIGENCE EFFORT IN CENTRAL AND EASTERN EUROPE.
- ✓ 4) PROVIDE BASIS FOR FURTHER EXAMINATION BY CIA OF CHARACTER OF RUSTY. STRESS THIS IS INTERIM ARRANGEMENT WHILE BROADER PROBLEMS OF RUSTY ARE UNDER CONSIDERATION IN WASH.

B. THAT THE SUPPORT OF THE PROJECT BY THE UNITED STATES CONTINUE ON THE BASIS OF A REORGANIZATION OF THE U.S. SIDE TO ENSURE THAT RUSTY OPERATIONS ARE COORDINATED WITH OTHER U.S. INTELLIGENCE ACTIVITIES IN EASTERN EUROPE AND THE MIDDLE EAST,

C. THAT OPERATION OF 7821 COMPOSITE GROUP CONTINUE UNDER THE COMMANDING GENERAL OF THE EUROPEAN COMMAND WITH HIS DIRECTOR OF INTELLIGENCE RESPONSIBLE FOR COORDINATING THE SUPPORT THAT CAN BE LOCALLY RENDERED THE GROUP BY THE GROUND FORCES, AIRFORCES AND NAVAL FORCES IN EUROPE AND THE CIA REPRESENTATION IN GERMANY. ODDI EUCOM IN ITS DUAL ROLE AS DEPUTY TO GENERAL HALL WHILE STILL FULFILLING THE GENERAL STAFF INTELLIGENCE FUNCTIONS OF THE COMMANDING GENERAL OF THE U.S. FORCES IN EUROPE (HUEBNER) WOULD NORMALLY RETAIN PRIMARY INTEREST AND CONTINUE TO PLAY LEADING ROLE WITH RUSTY BUT THE COMMAND CHANNEL AND RELATIVE POSITION OF ODI USAFE, ONI AND CIA MISSION GERMANY WOULD BE CLARIFIED.

D. THAT THE STAFF OF THE 7821 COMPOSITE GROUP INCLUDE REPRESENTATIONS OF THE ARMY, AIRFORCE, NAVY (IF INTEREST WARRANTS) AND CIA.

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71. (Continued)

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PAGE 6

E. THAT LUMP SUM APPROPRIATION OF FUNDS TO SUPPORT
RUSTY FACILITIES AND PERSONNEL IN WESTERN ZONES AND TACTICAL
AND STRATEGIC COLLECTION EFFORT IN EASTERN GERMANY AND PURELY
TACTICAL COLLECTION IN SATELLITES SHOULD BE MADE BY CIA, ARMY,
AIRFORCE AND N.VY AGREEMENT IN WASH ON ANNUAL BASIS TO PERMIT
PLANNING. ALSO BY SAME AGREEMENT AT WASH LEVEL PERIODIC
STATEMENTS OF AREA AND TARGET PRIORITIES SHOULD BE FURNISHED 7821
COMPOSITE GROUP THROUGH DIRECTOR INTELLIGENCE ENCOM.

✓ F. THAT APPROPRIATIONS OF FUNDS TO SUPPORT
ANY STRATEGIC INTELLIGENCE OPERATIONS IN BALTIC, CENTRAL EUROPE,
BALKANS AND MIDDLE EAST SHOULD COME ONLY FROM CIA WITH EACH
OPERATION BEING HANDLED ON A PROJECT BASIS WITHIN CIA CHANNELS.

✓ G. THAT OFFICIAL AND UNOFFICIAL LIAISON WITH
FOREIGN INTELLIGENCE SERVICES BE CLEARED WITH CIA AS WELL AS ARMY.

TOR: 1622Z 17 DEC 48

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71. (Continued)

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Form No. 86-s
April 1947

(751)

CENTRAL INTELLIGENCE GROUP

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PAGE No.

FROM: KARLSRUHE
TO: SPECIAL OPERATIONS
ACTION: ADSO (1)
INFORMATION: COPS (2), FEM (3)

PRIORITY

17 DEC 48

~~TOP SECRET~~ IN 19522A

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KARL 2925

CORRECTION

CORRECT LINE 13, PARAGRAPH 14, PAGE 4, TO READ:

".... EUROPEAN MILITARY ALLIANCE THIS FACTOR"

Downside
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17 Mar 61

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TOR(CORR) 0633Z 18 DEC 48

~~TOP SECRET~~ SECRET

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72. Chief, MOB [Critchfield] to Chief, OSO, "Report of Investigation—RUSTY," with annexes, (excerpts), 17 December 1948

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MGMA 878
MGTS 11

AIR

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17 December 1948

REVIEWED: 05 May 99
DOWNGRADED TO: S
REVIEWER: C
CLASS REASON: I, S, C
DECL ON: 05 May 19
DRV FROM: Cov 4-82

Chief, OSO - EYES ONLY

Chief of Station, Karlsruhe

Operation 1

Report of Investigation - RUSTY

REF : [REDACTED] WASH 4193

1. The initial 30 day phase of the RUSTY investigation initiated on 18 November 1948 in accordance with instructions contained in reference cable has been concluded; the attached report was summarized in [REDACTED] KARL 2925
2. The basic report with Annexes A, B, F and G was produced in four copies, one each of which has been retained at Munich and Karlsruhe.
3. Annexes C and D and the inclosures to Tabs 1 and 7 of Annex F and attachments 1 and 2 of inclosure #3 to Tab 6 have been photographed at Karlsruhe.
4. In reviewing the entire report prior to submission we note that RUSTY's present doctrine of operations is stressed in the "Findings", whereas a more accurate picture of present conditions can be had by reading Annex F. The latter is more accurate because it is more detailed; the former deserves equal attention, however, because it shows the direction in which the organization is moving. Had it been possible to reconcile these two points of view in one statement we would have done so, but, frankly, we could find no simple formula with which to describe this operation.

James Critchfield

[REDACTED]
CMOB

Distribution: [REDACTED]
2 - [REDACTED] for [REDACTED]
(Copy #2 with Annexes B, F and G only)
1 - Karlsruhe
1 - Munich ✓

REVIEWED: 05 May 99
DOWNGRADED TO: S
REVIEWER: C
CLASS REASON: I, S, C
DECL ON: 05 May 19
DRV FROM: Cov 4-82

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72. (Continued)

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Report of Investigation of the Intelligence Activities
of the 7821 Composite Group

17 December 1948

I. NARRATIVE

II. FINDINGS

III. RECOMMENDATIONS

Annex A: Basic Instructions on Conduct of the Investigation

Annex B: Operational Directive for the 7821 Composite Group

Annex C: Staff Study, U.S. Staff RUSTY

Annex D: Staff Study, German Staff RUSTY

Annex E: Examples of Report Produced by RUSTY.

Annex F: Compilation of Separate Reports by [REDACTED]
and [REDACTED]

James Critchfield

Annex G: Personal Statement on Future of Operation by Dr. SCHNEIDER

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72. (Continued)

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The present official designation of the combined US-German organization is the 7821 Composite Group; this term is used throughout this report when referring to the entire project.

The now discarded term RUSTY has been used throughout this report when referring to the entirely German element and its intelligence producing activities as a whole.

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I. NARRATIVE

James Critchfield

1. The investigation of RUSTY was initiated by [redacted] on 18 November 1948 after a preliminary conference in the office of the Deputy Director of Intelligence, EUCOM, on 16 November 1948. Present at this initial conference were:

- General Hall, Director of Intelligence, EUCOM;
- Colonel Schow, Deputy Director of Intelligence, EUCOM;
- Colonel Bromley, Office of the Director of Intelligence, Department of the Army;
- Major Strong, EUCOM intelligence staff officer;
- and [redacted]

James Critchfield

The matters discussed at this conference have been previously reported by [redacted]. The single item of significance which has had a bearing on the conduct of the investigation was an agreement reached that Colonel Bromley and [redacted] would arrive at the 7821 Composite Group together and that [redacted] would be introduced as Bromley's assistant. In accordance with a plan agreed upon at the conference in Heidelberg on 16 November 1948, [redacted] accompanying Colonel Charles V. Bromley, arrived at the Headquarters of the 7821 Composite Group near Munich, Germany, on the 18th of November. Because of previous contacts with RUSTY personnel, [redacted] used his real name in all contacts with the US and German Staffs. [redacted] was introduced as the Assistant to Colonel Bromley from the Intelligence Division in Washington. At the conference in Heidelberg on the 16th of November, a EUCOM Intelligence Division Staff Officer, advised [redacted] that General Walsh had on his last visit to the 7821 Composite Group advised the top US and German Staff personnel that CIA and the Intelligence Division in Washington would, in the near future, be sending representatives to assess the operation. Upon arrival at the 7821 Composite Group, it became immediately apparent that at least the top German Staff members had the character of the investigation accurately established.

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2. [redacted] investigation has been conducted in accordance with instructions contained in the following documents (Annex A):

- WASH 49173 a. [redacted], 27 Oct 48 - [redacted] to [redacted] [] to []
- MCKA 3957 b. [redacted], 2 Nov 48 - [redacted] to [redacted] [] to [] *Critchfield*
- WASH 4967 c. [redacted], 16 Nov 48 - [redacted] to [redacted] Info: [redacted] *Critchfield*
- MCKW 914 d. [redacted], 2 Nov 48 - [redacted] to [redacted] *Knight to* [] []

3. During the course of the Heidelberg conference on 16 November 1948, the Deputy Director of Intelligence, Colonel Robert A. Schow, advised [redacted] of the following:

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72. (Continued)

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a. That there exists no official directive on RUSTY from the Director of Intelligence, Department of the Army General Staff to the Director of Intelligence, European Command.

b. That the instructions from the Intelligence Division, European Command to the 7821 Composite Group were contained in Letter, HQ European Command, Intelligence Division, 13 October 1948, Subject: "Operation Directive for the 7821 Composite Group" and a subsequent letter, HQ European Command, Intelligence Division, 30 November 1948, Subject: "Priorities for Intelligence Collection" (Annex B).

c. That no files on RUSTY not duplicates of those in the files of the 7821 Composite Group were kept in the office of the Director or the Deputy Director of Intelligence, EUCOM.

4. As a result of paragraph 3 above, the only reference material available at the initiation of the investigation was that provided by Washington and Karlsruhe through our own channels; thus, reference material available at the beginning of the investigation was limited to the following:

a. The [redacted] Report - 1946 ⁴¹

b. Ltr dtd 1 Oct 46, AG of S, G-2, EUCOM, to: *Vanderberg*
Director of CIA, Subject: "Operation RUSTY" *report*

c. RUSTY correspondence file, Chief of Station, Germany

5. The form of the investigation during the first ten days was determined primarily by the initial decision that [redacted] would appear as an assistant to Colonel Bromley. All requests to the US and German Staffs for briefings, prepared studies and information were made by Colonel Bromley; however, the views and informational needs of [redacted] were consistently given complete and courteous consideration by Colonel Bromley. In retrospect, the decision to enter into this close collaboration with the Intelligence Division representatives appears to have been highly beneficial to both parties. Also, it was fortunate that this phase of the investigation lasted only ten days since Colonel Bromley's departure left [redacted] assisted by [redacted], free to concentrate on the operational aspects examined only superficially during the first ten days.

6. Early in the investigation Colonel Bromley and [redacted] jointly prepared detailed requests to the US Commander and the German Leader for current and historical information on all aspects of the project. These reports, submitted to us in two copies on 24 November 1948, are:

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a. Staff study submitted by the Commanding Officer, 7821 Composite Group on 24 November 1948. (Annex C).

b. Staff study submitted by the German Leader, 24 November 1948. (Annex D).

c. Examples of Reports submitted by the German Organization, 24 November 1948. (Annex E).

7. The basic operational directive to 7821 Composite Group indicates the contractual character of the US-German relationship in the entire project. The US Element is essentially a small staff which provides the German Organization with logistical support and performs the necessary liaison to all other US agencies called upon to support the operation. The members of US Element appear to exert little influence over the actual collection operations; this is attributable to the fact that the officers assigned to the 7821 Composite Group have, with a few exceptions, had no intelligence training and have only recently been assigned to the project. Because of this situation, the German Staff was the principal source of information throughout the investigation.

8. In accordance with instructions contained in [redacted] to the effect that the problem of content should be referred to Washington, no effort to make an overall evaluation of the content of RUSTY production was made during the course of the investigation. Investigation with respect to the content of finished reports was limited to spot checks in connection with the examination of the existing procedure for processing raw information into finished intelligence. WASH 4193

9. A list of principal RUSTY finished intelligence reports of the past year were forwarded to Washington as an inclosure to [redacted]. Reports that had been disseminated on Army GDS Form 17 and given a Z or F number identifying the report as a RUSTY product were so listed to facilitate identification of the report for evaluation purposes. MGMA-868

10. After the departure of Colonel Bromley on 30 November 1948 the investigation was continued during the course of which operational bases were visited, training facilities inspected and numerous conferences held with members of the US Staff and members of the German Staff and field organizations. Particular emphasis was placed on the following ten items:

- (1) Country by Country Survey of Current Operations and Developmental Projects.
- (2) Order of Battle and Agent Control Files.

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- (3) The RUSTY Emergency Plan.
- (4) Procedure for Staff Processing of Reports--Raw Information to Finished Intelligence.
- (5) Cover and Documentation.
- (6) Security Procedures and Techniques Including CB Operations.
- (7) Signal Communications and Signal Intelligence.
- (8) US Air Forces Interest In and Support of RUSTY.
- (9) Training Program.
- (10) Liaison Procedures (with US, German, and other Foreign Agencies).

Critchfield []
 11. Because of the extremely limited amount of time available in which to become conversant with all aspects of a very complex organization, [] and [] each attempted to examine thoroughly separate functional aspects of the organization. [] concentrated on obtaining a comprehensive picture of counter intelligence activities, security measures, reports procedures, agent files, organizational training programs and several other specific problems. *Critchfield* [] [] [] considered all problems relating to logistical support, finances, organization and staff procedures, communications, signal intelligence, information collection operations, strategic operations, emergency plans, relationships with US and foreign agencies, cover and documentation and various other matters.

12. Separate reports on each of the items listed in paragraph 10 above were prepared as the investigation progressed; these reports were compiled in Annex F. These reports prepared by [] and [] the material submitted in written form by the US and German Staffs and the personal observations made by [] and [] during the course of the investigation form the basis for the FINDINGS and RECOMMENDATIONS which follow.

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II. FINDINGS AND COMMENTS

A. The U.S. and German (RUSTY) Elements' working relationship within the 7821 Composite Group is based on a contractual agreement defined by the EUCOM OMDI official directive, dated 13 October 1948, to the 7821 Composite Group. (See Tab 1, Annex B).

B. The U.S. Element of the 7821 Composite Group is primarily concerned with providing financial and logistical support, and with dealing with problems of legalization, housing, cover, and transportation on behalf of the German (RUSTY) Element. Its influence on operational matters is primarily exercised through its control of finances and supply, and through its provision of KEI's. (See Annex C).

C. The German (RUSTY) side of the 7821 Composite Group can no longer be accurately described as an intelligence operation; it has, in reality, emerged as a well-rounded German intelligence service, staffed with ex-Abwehr and General Staff Corps officers (See Tab 2, Annex F), supported by U.S. Army Intelligence, and operating exclusively against the Soviet Union, with tactical emphasis on the Soviet Armed Forces in the Eastern Zone of Germany. (See Tabs 1 and 2, Annex D).

D. The German (RUSTY) Element as now organized by Dr. SCHNEIDER includes sections for the collection, evaluation, collation and production of reports (see Tabs 3 and 4, Annex D, and Tabs 1 and 4, Annex F), communications, tactical signal intelligence and cryptanalysis (see Tab 7, Annex D, and Tab 7, Annex F), cover and documentation (see Tab 5, Annex F), operational and internal security (see Tab 6, Annex F), and supply, financial, and personnel administration (see Tabs 5, 6 and 8, Annex D). Because of this operational inter-dependence of the various sections of the German (RUSTY) Element, it appears impracticable at this time to divide RUSTY into parts which can be individually liquidated or continued in operation by various U.S. agencies.

E. There is no evidence that the operations of the German (RUSTY) Element have been directed to meet any intelligence requirements not laid down by the U.S. Element, and it appears, in fact, that sincere attempts have been made not only to treat KEI's from the U.S. Element as basic intelligence objectives, but also as an indirect statement as to the authorized scope of RUSTY operations. (See Tab 9, Annex B). It must be noted in this connection that, since the Army both at the Washington and EUCOM levels has been reluctant to give policy direction to operations, except for the broad picture which could be drawn from these KEI's, Dr. SCHNEIDER has been forced to rely chiefly on fragmentary and desultory instructions obtained in conversations with EUCOM and Washington Intelligence Division officers visiting the organization.

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F. The conviction that the time of extreme nationalism is past and that the future lies in Western European and Atlantic Union concepts appears to be the sincere motivation of Dr. SCHNEIDER who makes ideological indoctrination a vital element of training of his organization. (See Tab 10, Annex D, and Annex G). Insofar as is compatible with this concept, RUSTY can otherwise be said to subscribe to the traditional position of the General Staff Corps and of the Abwehr. It therefore appears to remain aloof from political activity, although subscribing to the federalist concept for the Western German state.

G. Dr. SCHNEIDER is the most impressive member of the RUSTY staff, and in our opinion dominates the organization. His outstanding personnel problem approximately one year ago was to remove Mr. BRAEUER as head of the collection effort, and to neutralize his direct influence and control of information collecting activities and personnel. This problem appears to have been solved, while still salvaging Mr. BRAEUER's services and thirty years of intelligence experience in operations directed at the USSR, by assigning him to strategic planning for the Middle East area. BRAEUER himself is now expected to leave shortly for Teheran.

H. Dr. SCHNEIDER admits that Army pressure in 1946 and 1947 for immediate production in widely diverse fields and geographical locations stimulated unplanned and uncontrolled growth, and necessitated violating most sound operational rules. Operational procedures and techniques now being stressed, however, adhere generally to well established principles for sound intelligence operations. (See Tabs 1, 6 and 9, Annex F).

I. RUSTY's information collecting activities have been essentially tactical (see Annex B, paragraph 2), with the main effort being in Eastern Germany, and with lines into Poland, Czechoslovakia, the Western USSR and the Balkans. While it now has Eastern Germany adequately covered with approximately 600 agents, its present aim, based on the assumption that the present RUOM area priorities and level of support will continue, is to raise the level of its penetration of all facets of Soviet and Communist activities in the Soviet Zone, while trimming the size of its operations there. At the same time, present operations into Poland and Czechoslovakia will be continued, with an additional attempt being made to establish coverage of strategically critical points with radio communication; collection activities in the Balkans are, however, being reduced, although provisions are being made to retain such agents and support facilities, especially in Rumania, as will be required for extension of operations into the USSR. In addition, RUSTY also has well-developed possibilities for strategic operations against the USSR through the Baltic and the Middle East. Work in this field has progressed to point of reactivating Abwehr sources,

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examining resistance group potential and placing some new deep cover personnel in approach areas to USSR. (See Tab 1, Annex F). KUCOM's emphasis on the procurement of tactical intelligence, limited funds, and the lack of channels to coordinate strategic operations in any way with other US and Western European intelligence activities in these areas have, however, confined RUSTY's activities in the strategic field to the developmental phase.

J. USAF's greatest interest in RUSTY is in the results of RUSTY monitoring, DF-ing, and cryptoanalysis of Soviet Air Force radio traffic. This at present is the only source available to USAF of timely information on Soviet tactical air activity in Central Europe. In the strategic field RUSTY is doing valuable work in the preparation of target folders for Air Force which has also suggested (via Colonel Bromley) that RUSTY look into the possibilities of developing air crew evacuation and escape routes out of the USSR. (See Tab 8, Annex F).

K. An analysis of RUSTY operations and production indicates that at least 50% of it is on tactical military intelligence, 20-30% on strategic intelligence of interest to the Armed Forces, and the remainder is on political and economic intelligence. (See Tabs 3 and 4, Annex D, and report samples, Annex F).

L. As provision against the event of war, RUSTY has completed detailed emergency plan which has been integrated with that made by KUCOM. This plan involves the possible evacuation of the RUSTY headquarters to ~~Switzerland~~ and then to ~~Spain~~. The plan has already been coordinated at an unofficial level with the ~~Swiss~~ ~~Spanish~~ and ~~French~~. (See Tabs 3 and 10, Annex F).

M. The cover and legalization of RUSTY facilities and personnel in the Western Zones will become an increasing problem in the near future. As U.S. participation in local German governmental affairs decreases, the Germans in RUSTY will have to deal with local German officials without the possibility of intervention and assistance on the part of U.S. personnel. Commercial or governmental agency cover will then become essential. The former would be far more expensive, but the latter would offer a more difficult political problem. It is probable, therefore, that the best solution will lie in a combination of the two. At any rate, this problem will become an increasingly critical factor in the successful continuation of RUSTY activities.

N. The size and scope of the present organization, current political developments in Germany, and the number of U.S. agencies other than Army having a valid interest in the future of RUSTY, make it highly advisable that U.S. policy with respect to RUSTY be determined on the highest level possible without further delay.

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O. CIA, Army, Air Force, Navy, and possibly State all appear to have an interest on the national level. In Europe the tactical responsibilities of the European Commander, as well as of his Army, Air Force, and Navy commanders, give them all a vital interest in much of the RUSTY production. CIA representation abroad has an interest in RUSTY production, and particularly in its strategic activities outside of Germany and in its future GIS implications. Under present conditions, however, continued operation by the Occupation Force of the 7821 Composite Group in order to provide cover and logistical support for the organization appears necessary.

P. Facts learned in less than a month of observing RUSTY are certainly not conclusive. It is already clearly apparent, however, that many of the problems facing RUSTY basically stem from unsound organization and inadequate staffing on the U.S. side. The U.S. Element should be reorganized, and following this reorganization, at least a year should be allowed during which period RUSTY could be further tested and remolded, and its activities better coordinated with our broader national intelligence effort. Also during this period the problem of relationship between RUSTY and the Western German Government, as well as the whole problem of cover for the organization, should be constantly reviewed as a discernible pattern for the new Western German States emerges.

Q. Any decision to withdraw a major part or all support of RUSTY, particularly without a tapering-off period, would certainly effect the position of U.S. Intelligence vis-a-vis the future German Intelligence Service which will inevitably materialize regardless of any present decisions on RUSTY. In the final analysis, RUSTY is a re-established GIS which has been sponsored by the present de facto national government of Germany, i.e. by the military occupational forces. Because the 4,000 or more Germans who comprise RUSTY constitute a going concern in the intelligence field, it appears highly probable that RUSTY will emerge as a strong influence, if not the dominant one, in a new GIS. Another important consideration is that RUSTY has closest ties with ex-German General Staff officers throughout Germany. If, in the future, Germany is to play any role in a Western European military alliance, this is an important factor. The issue then appears to be whether, from a national viewpoint it is desirable for the U.S. completely to relinquish control of the resurgent Abwehr and nucleus of a future German General Staff which has been nurtured for three years by the U.S. Occupation Forces. From the intelligence viewpoint, it seems desirable that CIA enter RUSTY at that point where it can control all contacts and operational developments outside of German territory.

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III. RECOMMENDATIONS

A. That form of investigation which began 30 days ago be modified at this point by designating investigator as temporary liaison officer to commanding officer 7821 Composite Group for concentration on following:

(1) Provide direct channel to CIA for consideration on project basis of strategic operations now in developmental stage.

(2) Provide 7821 Composite Group commander with advisor on intelligence problems which transcend boundaries of Germany.

(3) Provide channel between CIA mission Germany and 7821 Composite Group to reduce existing conflicts and undesirable duplication of US intelligence effort in central and eastern Europe.

(4) Provide basis for further examination by CIA of character of RUSTY. Stress this is interim arrangement while broader problems of RUSTY are under consideration in Washington.

B. That the support of the project by the US continue on the basis of a reorganization of the US side to ensure that RUSTY operations are coordinated with other US intelligence activities in Eastern Europe and the Middle East.

C. That operation of 7821 Composite Group continue under the commanding general of the European Command with his Director of Intelligence responsible for coordinating the support that can be locally rendered the group by the Ground Forces, Air Forces and Naval Forces in Europe and the CIA representation in Germany. ODDI EUCOM in its dual role as Deputy to General Hall while still fulfilling the General Staff intelligence functions of the commanding general of the Ground forces in Europe would normally retain primary interest and continue to play leading role with RUSTY but the command channel and relative position of ODI USAFE and ODI would be clarified.

D. That the staff of the 7821 Composite Group include representations of the Army, Air Force, Navy (if interest warrants) and CIA.

E. That lump sum appropriation of funds to support RUSTY facilities and personnel in western zones and tactical and strategic collection effort in eastern Germany and purely tactical collection in Satellites should be made by CIA, Army, Air Force and Navy agreement in Washington on annual basis and at least six months in advance to permit planning. Also by same agreement at Washington level periodic statements of area and target priorities should be furnished 7821 Composite Group, through the Director of Intelligence, EUCOM.

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F. That appropriations of funds to support any strategic intelligence operations in Baltic, Central Europe, Balkans and Middle East should come only from CIA with each operation being handled on a project basis within CIA channels.

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EUROPEAN COMMAND
Intelligence Division

APD 403
13 October 1948

SUBJECT: Operational Directive for the 7821 Composite Group
TO : Commanding Officer
7821 Composite Group

In order to provide operational and administrative guidance for the Commanding Officer of the 7821 Composite Group, the following policy is hereby established. As conditions affecting the functions of the group change, this directive will be amended accordingly.

1. COMMAND AND ADMINISTRATION

a. The American Commander is responsible for the over-all direction, operation and administration of the 7821 CG and for the supervision of the German Element through the German Leader.

b. The German Leader is responsible for implementation of the policy and directives of the American Commander, such responsibility requiring that he exercise close control over the German Element and be accountable to the American Commander for all variations from established policy or directives.

c. Discipline within the German Element is the immediate responsibility of the German Leader. It will be the prerogative of the American Commander to order any person dropped from the Organization who has demonstrated himself to be unfit for such employment.

d. The relationship between the American Commander and the German Leader is a contractual agreement designed to facilitate the procurement of information. The American Commander will make available to the German Leader such operational funds and supplies as are allotted to the Organization by higher authority. The German Leader is responsible for the allocation of these funds and supplies within his collection facilities so as to assure maximum productivity in the fields designated by the American Commander.

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e. The production of the organization will be kept under constant review by the Intelligence Division, EUCOM, and the German Leader will be advised through the American Commander when the quantity or quality of reports becomes unsatisfactory. It is recognized that contingencies will arise which may result in temporary reductions in the volume of reports from certain projects. When these reductions are due to the diversion of funds or supplies to other projects, such expenditures will be clearly reflected in the books of the Organization Fund.

f. Expenditures greater than \$100.00 for purchases of items not listed in the periodical supply forecasts furnished the Intelligence Division, EUCOM, will receive the prior approval of the Intelligence Division, EUCOM.

g. The 7821 CG is part of Munich Military Post, and maximum coordination with the Commanding Officer, Munich Military Post, will be effected on all administrative matters pertaining to his command. Generally speaking, the Organization will be subject to the inspections and other administrative controls normally imposed. Occasions arising which, in the opinion of the American Commander, prejudice the security of the Organization will be discussed with the Commanding Officer, Munich Military Post. If no satisfactory solution is reached, the Intelligence Division, EUCOM, will be notified.

2. OPERATIONS

a. The 7821 CG is a positive intelligence collection agency operating outside the US Zone of Germany with exception of certain administrative field offices, signal installations and such minor counter intelligence operations as are necessary to assure the security of the Organization. The geographical priority of coverage established for the collection operations of the organization is:

Priority One: Soviet Zone of Germany
Priority Two: Poland and Czechoslovakia
Priority Three: Baltic States and the Western Military Districts of the USSR extending East to roughly 30 degrees East Longitude.

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Greatest emphasis will be placed upon military information with lesser emphasis upon economic and political information. Information concerning progress of the USSR or her satellites in the field of fissionable materials, atomic weapons or chemical or bacteriological warfare will be considered military information.

b. No collection effort will be conducted in either the US or the British Zone of Austria, these areas to be utilized only as transient areas for couriers. Maximum coordination will be effected with the Director of Intelligence, USFA. American officer personnel of the Organization are authorized to contact the Director of Intelligence, USFA, directly on matters other than policy. Changes of policy require prior approval of the Intelligence Division, EUCOM.

c. The Signal projects operated by the Organization will not engage in research in cryptanalysis.

d. The Organization will conduct only the minimum counter intelligence operations required to protect operations. No attempt will be made to penetrate the KPD or any foreign mission without prior coordination with Headquarters, 7970 CIC. Should a member of the Organization successfully penetrate an organization of counter intelligence interest in the US Zone while in pursuit of other missions, CIC will be notified without delay, and the agent either will be placed under the operational control of CIC or withdrawn if CIC considers such action preferable. Counter intelligence leads produced by members of the organization will be given to CIC, as such, and will not be pursued further by the Organization unless its security is closely involved. If that be the case, further activity will be coordinated with CIC.

e. No member of the Organization will contact any foreign intelligence agency or foreign government without the prior approval of the Intelligence Division, EUCOM.

f. The teletype facilities of Headquarters 7970th CIC Group, and subordinate offices, are available to the 7821 Composite Group for the transmission to Intelligence Division, EUCOM, of items of spot information which are of such a nature as to require urgent

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handling. When these facilities are utilized, an American representative of the 7821 Composite Group will authenticate the message prior to its transmission by CIC.

(signed) Robert A. Schow

ROBERT A. SCHOW
Colonel, GSC
Deputy Director

Tel: Heidelberg 02256

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HEADQUARTERS
EUROPEAN COMMAND
Intelligence Division
APO 403, U.S. Army

350.09 (GID/OPS/IS)

30 November 1948

SUBJECT: Priorities for Intelligence Collection

TO : Commanding Officer
7821 Composite Group
APO 407, U.S. Army

1. The following will be added to letter from this Headquarters, subject: Operational Directive for the 7821 Composite Group, dated 13 October 1948:

"2h. Intelligence Collection Memoranda forwarded to the 7821 Composite Group for action will have indicated thereon the degree of priority assessed by this Division. These priorities will be expressed as Priority 1, Priority 2 or Priority 3, unless the request is of an urgent nature in which case it will be labeled Priority 1 URGENT. The general basis for these priority assessments will be:

Priority 1 will include all requests which concern activities of the USSR or her satellites which indicate that the Soviets are preparing to initiate hostilities within the next three months. Also included will be requests concerning progress made in the field of fissionable materials, atomic weapons and chemical or biological warfare.

Priority 2 will include all requests concerning plans the USSR or her satellites may have for the eventual initiation of hostilities.

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Priority 3 will include all requests concerning the war potential and military strength of the USSR or her satellites. Also included are any weaknesses of the USSR or the satellites which may be exploited to reduce their war potential.

The geographical priority listed in Paragraph 2a will not be indicated in Intelligence Collection Memoranda."

ROBERT A. SCHOW
Colonel GSC
Deputy Director

Tel: Heidelberg 04255

Note: Above priority system given to 7821 CG by IRS dated 5 October 1948, subject: Priorities for Intelligence Collection.

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ANNEX Y

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1. RUSTY Operations
2. Order of Battle and Agent Control Files
3. The RUSTY Emergency Plan
4. Procedure for Staff Processing of Reports - Raw Information to Finished Intelligence
5. Cover and Documentation
6. Security Procedures and Techniques Including CE Operations
7. Signal Communications and Signal Intelligence
8. U.S. Air Forces Interest in and Support of RUSTY Operations
9. Training Program
10. Liaison Procedures
11. Press Analysis

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RUSTY Operations in Germany

Current RUSTY operations continue to reflect, to some extent, the early history of the entire project and the personalities of the earlier leaders of the Information Collecting Organization (ICO). The present Chief of ICO, Mr. SCHACK, appears to be a very sound and experienced intelligence officer and, in our opinion, is now second only to Dr. SCHNEIDER in exerting a decisive influence on the performance of the entire organization. In spite of the fact that he assumed his present position as late as April 1948, he is, in purely operational matters, the most influential man in the organization. SCHACK's immediate aims with respect to RUSTY operations are:

- 1) Minimize the importance of quantity production and stress the necessity for sound operational practices and quality in lieu of quantity in production.

A number of the operations in the Soviet Zone were examined and found to conform to the most recent EUCOM area priority operations. The greatest problem is in overcoming the great time lag which stems from a combination of inadequate communications facilities in Eastern Germany, a system of couriers, cut-outs and letter drops in Poland and Czechoslovakia of material.

- (1) Eastern Germany
- (2) Poland
- (3) Western USSR

Poland:
This will involve reduction of collection in Balkans, particularly Yugoslavia, but will provide for retaining agents and support facilities for extension of operations into the USSR, especially from Rumania. The Soviet Union and not on internal routes. Group 101 has four agents in Poland who have information on Polish radio traffic. Improve black courier routes across Soviet Zone-UB Zone border as alternate communications route to be utilized in the event Berlin and its communications facilities are lost. The West is in contact with a radio engineer in Konigsberg. Establish agents radio sets along the ODER-NEIUBE line, at points on the line where the Soviet range meets the European range, in the main Polish ports and at certain points designated as strategic by the Evaluation Group on communications facilities between Germany and Poland.

e. Concentrate the effort of each field organization into a single, limited geographical area to eliminate the present dispersion of effort.

In Czechoslovakia RUSTY operations are being reoriented to reduce the maximum effort on extension of operations east into Poland and the USSR. Activities, particularly in Slovakia, for the extension of tactical SR collection efforts into Poland. In the opinion of the country by country survey of RUSTY operations follows:

- 1) over Slovakia and Austria - see page for operations into Poland and
- 2) over the Western Zone - operations in, 22, 23, 24 and 170

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In addition to the operations in Slovakia, RUSTY has four operations in the ~~Soviet Zone of Germany~~ Moravia and Bohemia. Group 120 is considered the best organization operating in Czechoslovakia. Group 40811 has the ~~Soviet Zone of Germany~~ thoroughly covered by 600 agents and gathering information on Soviet Armed Forces order of battle, troop movements, logistical buildup, organization, equipment, training, mobilization data and personalities are of primary interest. Excellent results are obtained through the systematic collection of vehicle numbers, army postal numbers, shipping manifests, personal observations of units in training and the interrogation of Soviet Armed Forces personnel, including deserters. Other material is received from penetrations in the German Economic Commission, the Directorate General of the RR (Department of Traffic and Operation), the Central Administration of the Interior (for information on the "Peoples Police"), economic enterprises under Soviet control, the Saxony uranium ore mines, and SMA installations. A number of the operations in the Soviet Zone were examined and found to follow well established principles for the conduct of espionage operations. The greatest problem is in overcoming the great time lag which stems from a combination of inadequate communications facilities and a complex system of couriers, cut-outs and letter drops utilized in the transmission of material.

Poland:

Three organizations, 101, 120 and 66 have current operations extending into Poland. All are engaged in the collection of information on the Soviet Union and on internal Polish affairs. Group 101 has four agents in Poland who were returned to Poland via secret repatriation channels since the end of the war. Two of these are reported to be located in Northern Poland and two are in the upper Silesian area. Group 120 has an agent in the Russian consulate in Katowice and who is in contact with a metallurgical engineer in Konigsutte. Group 66 also reports three agents in Poland. My impression is that connections with all of these agents are maintained with difficulty and their current production of information is sporadic, depending primarily on communications facilities between Germany and Poland. Group 13, essentially a Rumanian-USSR operation, has connections in Hungary only to support courier movements. Group 103 is the Czechoslovak RUSTY in Hungary and has a primary DM mission. Group 99 operations in Hungary are being reduced and 8500, until recently active in Hungary, operations are being reoriented to reduce the coverage of internal Czechoslovakian activities and to utilize the existing facilities, particularly in Slovakia, for the extension of tactical OB collection efforts into Poland. In the opinion of the Chief of the ICO, Slovakia has numerous advantages over Moravia and Bohemia as a base for operations into Poland and possibly the Western Ukraine. Organizations 66, 99, 120 and 178 each have one operation in Slovakia. The primary targets for all of these are Soviet Armed Forces and Soviet controlled air fields in Poland.

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In addition to the operations in Slovakia, RUSTY has four Czechoslovakian operations in Moravia and Bohemia. Group 120 is considered the best organization operating in Czechoslovakia. Group 4711 is at present unproductive and in the process of re-organizing its efforts in Czechoslovakia. US Group 178 is a small group which operates only in Czechoslovakia. All three of these organizations collect military, industrial and political information. The recent arrest of twenty Czech agents in the US Zone of Germany by the CIC was based entirely on evidence produced by a current CE operation of Group 120. Group 66 operates throughout not against Czechoslovakia; it is basically a Ukrainian operation and claims to have twenty agents in the Ukraine without adequate communication facilities. Operatives under test cover in areas in which they hope to extend their operations in the future. The US part of the 1941 Group and the 1942 Group have been successful in lowering resistance to RUSTY in their activities. However, Rumania is considered by RUSTY to be the most promising of the satellites as a point from which to extend operations deep into the USSR. Group 13 in Austria runs all operations into Rumania and has several well established courier lines running to a number of active agents in Rumania. Many of the details of Group 13's operations were carefully examined and found to justify the inclination of the Chief of the ICO to increase the effort in this direction. On strategic intelligence possibilities against the USSR through the Middle East. This has been a special project carried out by Yugoslavia under the immediate supervision of Lt. SCHNEIDER and is not part of strategic intelligence planning (otherwise being carried out by Yugoslavia) but in the process of final liquidation. At present four operations extend into Yugoslavia along the Austro-Yugoslavian border but no further south than the main RR line between ZAGREB and LJUBLJANA. Because of the present political relationship of the Tito Government with the USSR and particularly because of the geographical location of Yugoslavia offers little possibility of basing operations into Poland and the USSR. Operations in Yugoslavia are on a low operational priority. It has arrived at the conclusion that a few of these possibilities should be examined on an individual project basis and aside from this report. With this possibility in mind, Walker has requested RUSTY to insert into Hungary are maintained by Groups 18, 103, 99, 111, 1500 and 114. Group 18; essentially the Rumanian-USR operation; has connections in Hungary only to support courier movements. Group 103 is the main effort of RUSTY in Hungary and has a primary CE mission. Group 99 operations in Hungary are being reduced and B500 is until recently headed by the Russian Emigrant General GLASER. It is in the process of liquidation. Group 114 runs CE operations into Hungary solely for the purpose of paralleling RUSTY positive operations for security purposes. If satisfactory liaison with US intelligence agencies in Austria could be established, RUSTY operations in Hungary could be reorganized along infinitely more efficient and less expensive lines.

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Bulgaria, like Yugoslavia, is considered undesirable as a base for the projection of tactical collection operations into the critical areas of Poland and the western USSR. RUSTY activity in Bulgaria is limited to several developmental strategic operations. Strategic Intelligence capabilities in the Baltic and Middle East have been limited to developmental activities involving the re-establishment of former Abwehr contacts in these areas, the initial explorations of the possibilities of using political groups with anti-Bolshevik aims in these areas and the establishment of a few RUSTY operatives under deep cover in areas in which they hope to extend their operations in the future. The US Staff of the 7821 Composite Group and the EUCOM ODDI have been instrumental in rendering assistance to RUSTY in these activities. However, because EUCOM and the Army do not have operational intelligence connections in areas outside of the occupied areas of Germany, Austria and Trieste, their efforts to assist RUSTY in such matters have not been completely successful. Also, the financial support allocated to these activities has been on an extremely meager scale.

Attached to Tab 1 of Annex F is a statement prepared by Mr. BRAEUER on strategic intelligence possibilities against the USSR through the Middle East. This has been a special project carried out by BRAEUER under the immediate supervision of Dr. SCHNEIDER and is not part of strategic intelligence planning otherwise being carried on in ICC. This arrangement is attributable to the personal history of Mr. BRAEUER in the organization.

During the course of the investigation a large number of strategic possibilities were brought to the attention of the investigator and a few possibilities were examined in some detail. On most of these a few reports were prepared and a few were examined by means of coordination. It is from these operations that we have arrived at the conclusion that a few of these possibilities should be examined in detail. One individual, whose name and details of this report will be given in a separate report, has been identified as RUSTY and reports detailed proposals on several operational possibilities which appear most promising. These will be described in detail in subsequent separate reports. It appears that consideration of these individual strategic possibilities could be considered separately from other aspects of our future relationship to RUSTY if some official means of liaison between the German Mission and the 7821 Composite Group were established. Our present liaison arrangements at the ODDI EUCOM level would be entirely inadequate for this purpose. The US Commander of the 7821 Composite Group concurs with this proposal.

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~~ORDER OF BATTLE OF RUSTY STAFF PERSONNELS~~ which, in practice, have been agreed to by the US Staff, basic biographical information ~~AGENT CONTROL FILES~~ in the central files on all agents of the organization, although not on informants. While this material is fairly limited, a visit to one field Organization ~~Order of Battle~~ biographical and other assessment materials are available in considerably more detail at these levels.

1. For the purpose of this investigation, personnel Order of Battle was required only on those members of the organization located in friendly territory and who, because of their leading positions, are able to influence the current policy and future development of the organization. Order of Battle of RUSTY personnel, therefore, was obtained down to and including the so-called Organization Leaders. Details given included cover name, position in the organization, former rank and/or title, former employment, and essential political background information. This material has been forwarded separately in [redacted] and [redacted].

KAPOK M66

MGMA 870 (KAPOK M67)

MGMA 869

II. Agent Control Files

2. During the first two years of RUSTY operations, Army pressure for production resulted in field recruiting of large numbers of agents about whom no records existed at RUSTY headquarters. With the appointment in the Spring of 1948 of a new head of the Intelligence Collecting Organization, however, a determined policy of accumulating basic central records on all agent personnel was adopted.

3. The policy of persuading agents to submit personal data, and of persuading subordinate organizations to forward such data to headquarters for incorporation in central agent files, although firm, is being slowly and carefully executed. Fresh in the memory of many Germans, and particularly those now associated with RUSTY, is the fact the quick and inclusive round-up by the Allied Powers of Germans in the various arrest categories established by the victors was due in large part to the existence of central files and to the failure of proper German authorities to destroy these files in the disorganized period of imminent defeat. A repetition of this experience, this time with the Soviets as the temporary victors in Germany, is greatly feared by most RUSTY field and agent personnel. The majority of agents within areas under Soviet control have a more immediate fear that insecure handling of personal data in the course of passing it through channels could expose the agent to possible arrest, torture, or death. In order to mitigate these fears, Dr. SCHNEIDER personally assured the organization that there would be no reproduction of agent file material and that he personally guaranteed its destruction in any emergency wherein it could possibly fall into enemy hands.

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As a result of Dr. SCHNEIDER's guarantees which, in practice, have been agreed to by the US Staff, basic biographical information is now contained in the central files on all agents of the organization, although not on informants. While this material is fairly limited, a visit to one field Organization (114) indicated agent biographical and other assessment materials are available in considerably more detail at these levels.

5. Although not duplicated in the files of the US Staff, RUSTY's agent control files are open to US inspection at any time.

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1. SCHNEIDER indicated that the plan has gone as far as the Emergency Plan integration with the plans of the American Intelligence Organization that would go into effect at the time of the outbreak of hostilities. In the event of the outbreak of war or should the outbreak appear imminent, a comprehensive and detailed Emergency Plan will be implemented. The details of this Plan are known only to the top staff members of RUSTY; fragmentary orders necessary to initiate the operation have been issued. The entire Plan is geared to the Emergency Plan of the European Command.

2. The German Staff at RUSTY Headquarters will, according to the Plan, move to SINGEN on the [redacted] at the West end of Lake Constance where it will be escorted across the [redacted] at an unauthorized crossing point. This arrangement has been made through liaison with the head of the [redacted] Police. Alternate plans call for the movement of the Headquarters into [redacted] through MARTINSBRUCK on the [redacted] Border or from SINGEN into [redacted] at MUHLHAUSEN. From [redacted] it is contemplated that the Headquarters will move to [redacted] should the tactical situation require displacement beyond [redacted]. This move has been discussed with [redacted] officials who have given their approval to this eventuality. As far as possible, [redacted] transport will be furnished for this move. General DOERR, former German Military Attaché to [redacted] is in [redacted] where he represents RUSTY in all matters. Several other former Abwehr and Wehrmacht officers are assisting him in all activities that are related to any aspect of RUSTY Operations. EUCOM is aware of General DOERR's role in [redacted] and, according to a statement by Dr. SCHNEIDER, Colonel Schow sent a letter to the US Military Attaché in [redacted] advising him of the Intelligence Division's interest in DOERR's activities.

3. RUSTY does not have any high level liaison with the [redacted] "because of its close [redacted] connections" and has, consequently, not informed them of their alternate plan of movement into [redacted].

4. RUSTY organization personnel in Northern Germany who are scheduled for evacuation are to be evacuated by a sea route; arrangements to effect this have been completed. Remaining personnel in the Central Germany areas have been instructed to proceed to designated points west of the Rhine.

5. Movements through western [redacted] and into [redacted] have been discussed with the [redacted]. Agreements reached with the [redacted] include detailed provision for the immediate establishment of a liaison radio channel to the FIS from RUSTY for the purpose of coordinating movements. The [redacted] requested that this liaison not be revealed to the US Element of RUSTY until such time as they had had the opportunity to report the agreement through their own channels to the American "Central Intelligence Agency".

Swiss Border
Swiss Northern Italy
Austro-Italian Border
Switzerland
Spain
Spanish
Spain

Italian Intelligence
British

France
Austria, Switzerland
French Military Intelligence
French

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6. Dr. SCHNEIDER indicated that the plan has gone as far as possible without integration with the plans of the American Intelligence Organization that would go into effect at the time of the outbreak of hostilities since he considers that his organization would immediately become an integral part of the American Intelligence Service in the event of war.

7. The Emergency Plan includes the activation upon the outbreak of hostilities of a system of sleeping nets and agents which at present are only partially organized. Most of the present agents and informants behind the Iron Curtain would continue their operations relying primarily on radio communications.

8. The logistical, documentation and signal communications problems attendant to such an operation as envisaged in the movement of key staff personnel and all members of their families who, if left in Soviet occupied territory would create a distinct security problem, have been given detailed attention in the RUSTY Emergency Plan; since they are not considered relevant to this report they will not be forwarded unless specifically requested at a later date. In general, the transportation plan envisages the use of RUSTY organic motor transport re-enforced by the truck fleets of several large trucking firms which have already been contacted; an alternate solution involves the use of a ten car train from the Munich area. The plan to ensure the security of the convoy during the evacuation includes the employment of a large detachment of German police and an emergency issue of arms to personnel of the German Staff. Details on these matters have been arranged. The RUSTY staff is fully aware of the fact that their ability to implement such a plan will be determined by the time factors involved at the outbreak of war and the tactical developments immediately thereafter.

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TO GERMANY ONLY PROCEDURES FOR STAFF PROCESSING
OF REPORTS
(Raw Information to Finished Intelligence)

Reports are processed through three components of the 7821 Composite Group:

- A. Information Collecting Organization (7)
- B. Evaluation (45)
- C. Editing Section

A. Information Collecting Organization (7)

1. A rough preliminary evaluation of raw reports received is made by the Resident and/or Main Resident for the primary purposes of determining

- a. Whether or not the report context is possible, and
- b. Details of collection methods used in order to tighten operational and agent control.

Since, however, there are no reference materials and other reports to use for comparison purposes, all reports, whether possible or impossible, are forwarded on to the superior Organization, together with appropriate comments.

2. Each Organization has a number of Main Residents under it, and therefore, receives a number of raw reports on any given target. Consequently, comparative material exists at this level, and reports are therefore "pre-sifted", i.e. are given a tentative report board evaluation prior to being forwarded to Sub-Headquarters.

3. a. Sub-Headquarters is primarily concerned with the "organizational" (operational) material contained in the reports. Since they have already been tentatively evaluated at the Organization level, Sub-Headquarters' main interest is in the steering rather than in the evaluation and editing phase of reports processing. In the pre-sifting of reports at this level, however, operational directives and questions requiring further clarification are originated and are referred directly back to the appropriate subordinate Organization. In addition, operational comments and, on occasion, report contents, may be of the nature requiring security analysis. Such cases are referred directly to the CI Section of the Sub-Headquarters.

b. Reports come into Sub-Headquarters by courier from the field every Monday, Wednesday, and Friday mornings. "RUSH" or "RUSH RUSH" reports are processed forthwith and are forwarded to

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7 the same day. Routine reports are sifted, processed, and forwarded by the end of the following day. Hence, no more than 48 hours pass between the receipt of reports at Sub-Headquarters and their receipt at 7. A second copy is kept in Sub-Headquarters files normally only 4 - 8 weeks before destruction. In known or suspected cases of CI interest, however, reports are kept as long as the case remains of CI interest.

4. a. 7 itself has the following sifting groups for the processing of reports:

- (1) Source Evaluation
- (2) Military Sifting
- (3) Air Sifting
- (4) Economic Sifting
- (5) Political Sifting
- (6) CI Sifting

These same groups are duplicated in the organizational make-up of 45; hence, there is close coordination between 7, whose primary interests are in the operational aspects of reports processing, and 45, whose primary interests are in the content evaluation and editing aspects of reports processing.

b. Upon receipt at 7, reports are broken down into tactical and strategic divisions. This is done by Mr. Gay, who handles tactical operations, and by Mr. Winter, who handles strategic operations. These two individuals also prepare monthly statistical surveys of incoming reports (under the four main headings of agent reports, tactical and strategic, and PW interrogation reports, tactical and strategic) which are used by 7 to ensure that operations are directed according to priorities, and by 45 to determine the monthly basis and value of 7's reports production. According to subject, reports are then passed to the appropriate sifting group for detailed processing. Here the final Source Evaluation (A through F) and a tentative Content Evaluation (1 through 6) is made, and the reports are then passed on to 45.

c. Each sifter, in addition to being competent to pass on the operational details pertaining to reports, is also an experienced reports officer and can, therefore, determine quite accurately the reliability of content. However, individual judgment is complemented by various routine operational checks. For example, 7 believes it has an extensive and accurate knowledge

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of Soviet vehicle numbers in its various operational areas. All military reports are, therefore, required to contain some vehicle numbers from the area or units being reported on; if these numbers do not check with those on hand as reference, the sifter concludes that the report as a whole is probably false, or is an out-dated report, doctored to appear current. Such reports are not passed to 45, and hence do not get into U.S. channels. When reports receive favorable evaluation, operational details are extracted, and they are then passed either as individual or as compilation reports to 45 for a second and final content evaluation and editing.

d. A special type of report is the PW interrogation report. Although these are processed as above, a clear distinction is made between them and those deriving from agents working under the operational direction of 7. 7 stresses the attachment of sketches to each interrogation report, since these can be compared with reference materials on hand to check their validity.

e. The numbers of reports received and processed each month by 7 is considerable. The month of October 1943 is an example:

Agent reports (tactical)	4,951
Agent reports (strategic)	600
PW reports (tactical)	257
PW reports (strategic)	<u>2,791</u>
	8,599

Of these 8,599 reports, 2,321 were compiled into a total of 267 reports which were then passed to 45. The numerical cut is due to the elimination of false, known, out-dated reports, and the compilation of reports relating to a given subject. All out-dated or confirmatory reports are, however, guarded for reference use both of 7 and of 45. Miscellaneous reports are on occasion held in 7 for purposes of compilation and to await answers from the field to additional queries from 7. In each such case, however, the sifter's opposite number in 45 is informed.

f. 7 estimates that approximately 4 - 6 weeks are required for the transmittal of reports from the source in the target area to Headquarters (7). Delays are to be accounted for in large part to the necessity of transmitting reports through letter boxes, cut-outs, couriers, etc. In 7 itself, reports are classified according to priority, and priority reports are usually in the hands of 45 on the same day they are received by 7.

g. As can be seen from sub-paragraphs e. and f. above, the two outstanding problems of 7 insofar as reports processing is concerned are

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(1) insufficient personnel to handle rapidly the great bulk of incoming raw reports; and

(2) slowness of reports transmittal from source to 7, which will probably only be solved by the extensive development of agent radios particularly within enemy territory for high priority spot reports only, and with the improvement of communication facilities within friendly territory. Communications from Berlin and Vienna are especially inadequate.

B. Evaluation (45)

1. Upon completion of processing in 7, reports are passed to the appropriate opposite number in 45 where the following steps are taken:

a. Contents of the reports are examined, are checked with various reference materials contained in the files of 45, and are given the final Content Evaluation (1 through 6).

b. Pertinent information contained in the files, such as personality information, APO or vehicle numbers, etc., is added to the report.

c. The report is then compared with previous reports on the same subject, and appropriate comments are added.

d. Upon completion the entire report is passed to the translation section where it is translated into English in two copies, one of which is forwarded to the Editing Section, and the other is returned, together with the German original, to the originating reports officer.

e. On the basis of the completed report(s), and KEI's received through the U.S. staff, specific additional briefs are then prepared and passed to 7 for action.

f. Throughout the steps noted above, close cooperation is maintained between 45 and 7, and where necessary for proper reports evaluation, 45 may inquire as to the collection methods used to obtain the report.

2. 45 maintains a photographic and cartographic office for the reproduction or origination of charts, maps, statistical tables, etc. This section is of special importance in the preparation of target folders for USAFE.

3. An average of about 600 - 650 finished reports are passed to the U.S. office each month. The numerical difference between the reports received from 7 and those passed to the U.S. staff is accounted for by their use as comments to other reports, in compilations of reports, in so-called "evaluation" reports (i.e.

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estimate of the situation reports), and in the elaborate periodical studies made in the political, economic, military and technical fields. Such reports as are classified by the reports officer as "doubtful" are discussed with the leader of 45 or with his deputy who determine whether or not to disseminate, discard or refer back to 7 for further investigation.

4. The outstanding problem of 45 is the related one of time and personnel

(1) in the translation section, which has only four translators and is further handicapped, particularly in the economic and scientific/technical fields by the lack of definitive technical German-English dictionaries, and

(2) in the cartographic office where considerable time is required for the production of charts, maps, etc., particularly in the air and economic fields.

C. Editing Section

1. In the Editing Section, headed by Mrs. Eric Waldmann, incoming reports are first checked for translation, and are then passed either to Mrs. Waldmann, or to her assistant, Cpl. Jensen, who again check the translation for correct English terminology. They also give the report its BID number (currently preceded by the letter J-, and previously by the letter Z-), write a short summary, and classify.

2. The reports are then passed to the typists, of which there are four, who again proof-read and then type on Form OGS-17A (the master ditto), at the same time making three carbon copies, one of which goes to the USAF Representative, one to the German staff, and one to the file.

3. Pouches are prepared three times weekly and are normally read by the U.S. Commanding Officer prior to being forwarded to EUCOM.

Comment

Insofar as reports processing and its related activities are concerned, the one outstanding complaint both of 7 and of 45 is that there is a total lack of comment on their production from the U.S. side. They feel that this lack definitely hinders their ability to improve their direction, collection, and processing of information in proper coordination with U.S. intelligence needs, and, to a lesser extent, that it also results in a morale problem among the working-level personnel who tend to feel at times as though they were working in a vacuum.

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COVER AND DOCUMENTATION

1. The Cover and Documentation Section has facilities to do photocopying, dry and rubber stamp reproductions, straight printing, secret ink preparations, etching, art work plus some of the more simple processes involved in the reproduction of documents.

2. The documentation office depends entirely on the operations of RUSTY for the procurement of original documents; it is without contacts with other US supported documentation projects and does not appear to be conversant with the facilities of CIS (the EUCOM Intelligence Division organization engaged in documents reproduction). The need of greater technical support was clearly evident.

3. In spite of its lack of technical equipment and lack of information on what others working in the documentation business might be doing, the RUSTY documentation group appeared to be particularly conversant with the problems in documentation confronting their own operatives and appeared to have some personnel well qualified technically and in terms of experience.

4. When asked for his views on problems stemming from documentation requirements, the head of the documentation section expressed the following opinions:

a. During the postwar period the manufacture of documents that have proven adequate in usage offered no difficult problem since the documentation and police system behind the Iron Curtain has been even more chaotic than in the Western Zones of Germany. In the satellites and Eastern Germany there has, until now, been little standardization, even at local level, of paper stocks, print, stamps, water markings, and even of the color and form of the document in finished form. This situation is rapidly being altered and each of the satellites is now in the process of issuing or preparing to issue a standard and not easily imitated personal identification document. The main problems involved in overcoming operational difficulties which will occur from this new and standardized documentation in each of the satellites will be in the early procurement of genuine samples of the new documents and then acquiring the paper stock and ink necessary to reproduce the documents. The paper stock and ink offers the type of technical problem which RUSTY is not prepared to solve at present.

b. Some aspects of documentation work should be highly centralized. These are, in general, those aspects which are technical and in which the time factor involved is minimized.

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However, to avoid stereotyping the documents reproduced for intelligence purpose and thus rendering them easily recognizable by an established and publicized flaw or characteristic, the actual production of the documents with paper stocks and inks furnished from a centralized agency should be decentralized.

c. Some arrangement for the pooling of documents intelligence should be made since correct conclusions can be drawn only from the study of a large number of documents. In this connection, it would be highly desirable if facilities to photostat large number of documents from illegal border crossers could be established. Present document collection in Germany and Austria by all US intelligence agencies appears to be sporadic and uncoordinated.

d. The lack of a wide variety in different styles of type has made hand etching the means by which a number of styles of type not otherwise available are reproduced.

e. Personal contacts and an exchange of ideas and experiences with US agencies engaged in documentation work would be helpful.

5. The details and documents involved in the cover stories for RUSTY personnel living in friendly territory is worked out by the G-1 section of Dr. SCHNEIDER's staff and, insofar as possible, utilizing genuine German documents. Only in instances where the procurement of a Western Germany document is extremely difficult or the time factor requires expedient action does the documentation group duplicate genuine German documents. Most of the members of the RUSTY staff have economic cover with some firm in the Western Zones and carry genuine documents indicating their cover.

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SECURITY PROCEDURES AND TECHNIQUES
INCLUDING CE OPERATIONS

1. The primary functions of 7, closely coordinated with 45, are three-fold:

- a. Direction of all field operations of RUSTY;
- b. Dissemination of EEI's received from the U.S. Staff to the various field Organizations according to capacity; and
- c. Control of operations and personnel through detailed analysis of incoming material.

2. From the security viewpoint, a matter of special concern to the CI Section, safety procedures already developed, or in the process of development, now give greatest emphasis to

- a. Security in recruitment;
- b. Thoroughness in training;
- c. Continuity in detailed analyses of operations and report content; and
- d. Protection in operation.

3. Field organizations are directly responsible for routine security checks of potential recruits. In approaching an agent prospect, as many as eight or ten casual conversations are held during which political, economic, military and other problems are discussed in order to evaluate the prospect's character, political orientation, intelligence, degree of competence in the various fields, and so forth. Generally, the recruiter attempts to maneuver these conversations to the point where the recruit himself first raises the question of intelligence operations. Ideological motivations are considered basically the best proof against unreliability, and particular effort is made to find young men with a concrete and western-oriented ideology. Frequently this preliminary recruitment phase is done not by an operational member of the Organization, but by the so-called "Forscher", an individual whose own position prevents his risking compromise by engaging in actual operations, but who is, by the same token, in a position to spot and to sound out likely recruits. Where possible, the potential recruit is also put under surveillance to determine his normal activities, or, if located in "enemy" territory, an attempt is made to secure western zone references for further checks. At this point, if still not satisfied, the particular field organization concerned then requests traces from 7, submitting its reasons (in this case, a potential recruit; similarly, however, traces may

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be requested on "suspect" or "arrested" individuals.) The CI Section then checks its card files for derogatory information. If none appears, approval to recruit is normally given. If, however, the proposed level of employment requires, the case is referred to the CI Organization in Germany (114) or in ██████████ *Austria* (4913). Normal investigative procedures are used by the CI Organization, including checks with the Kriminalpolizei, casual interviews with various of the recruit's western zone references and associates, organizational surveillance, etc. In addition, the CI Organization may assign an Agent provocateur to determine the willingness of the recruit to work for the Soviets. In special cases, such as in the recruitment of radio operators for sleeping nets, even after actual recruitment and training, periodic and unannounced checks will continue, since the agents are expected to be inactive for an indefinite period of time.

4. The training program has been described in Tab 9 of this Appendix. Concerted support and improvement of the training program is given by the CI Section which prepares from time to time what are known as "Hinweise" or operational hints; these are based on incoming reports and include such items as MVD operational, interrogation, and arrest methods, known or suspected Soviet agents, black lists of "intelligence sellers", etc. The most important single CI contribution to the training program is the provision of detailed accounts regarding all "incidents", i.e. cases of agent chain blow-ups, arrests, etc. This is a by-product of the so-called "Investigative Group" attached to the CI Section of each Sub-headquarters. This group, usually made up of experienced ex-police officers and officials, investigates all cases of incidents.

5. The need for continuous and detailed analysis of operations and report content is self evident. This is accomplished by comparison of information contained in operation and information reports, with personality, organizational (i.e. CSS, VVN, etc.), and city (i.e. names of personalities and organizations, together with street addresses in any particular city), card files, making possible rapid warnings to the field organizations of unconscious agent association with suspect personalities and organizations, etc., or conversely, of conscious, and hence doubly dangerous, suspect associations.

6. The organization considers that operational protection can best be effected through the close observation of all potential centers of hostile observation. This has led RUSTY to pay particular attention to the police, Soviet and satellite missions and intelligence activities, KPD activities, dissident groups, and such special targets as the CSS.

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7. Insofar as the police are concerned, concerted efforts are made to establish close connections with, and to place agents in, all levels of the various police organizations, including, of course, the various Ministries of Interior. Greatest priority of interest lies in the Border Police since these are stationed on the most critical points of communications between agent and headquarters. An attempt was made during the past month, for example, to place a RUSTY candidate, one Kriminalrat HERBERT, in the long-vacant position of Chief of Border Police for Bavaria. In this particular case, RUSTY's candidate had an unfortunate Party background and could not be considered for that reason. A quick review of various operations undertaken by Organization 114 indicates, however, that RUSTY's all-inclusive approach to the police is meeting with considerable success. It further indicates that RUSTY considers the ability of the police, particularly in country areas, to provide assistance in the form of legalization, documentation, location of safe houses, etc., to be of equal operational value with the investigative and protective services which the police are able to provide. It appears quite definite that these services are the immediate justification for RUSTY's detailed interest in all matters pertaining to the police; it also appears likely, however, that RUSTY is well aware that its eventual confirmation by a future Western German Government as the dominant element in any new GIS will depend in large part on the existence of cooperation, rather than hostility, between it and the only other organized German investigative agency.

8. RUSTY CI operations against Soviet, satellite, and KPD intelligence activities, include such operations as

a. The KUKOVICH case, involving a former Comintern member, with lines covering Austria and Germany, and with connections to Switzerland (CSS) and to Rumania, possibly to Anna Pauker herself. RUSTY has placed an agent in KUKOVICH's apartment, as well as in several points in KUKOVICH's lines of communication. Although the immediate target of this operation is the organization of Communist Action Committees in Germany and Austria, some hope exists that it may possibly broaden into Cominform implications.

b. The Ansbach Soviet Mission or YAKUSHEV case, involving Soviet Mission recruitment of a RUSTY agent for its own intelligence purposes. RUSTY's immediate target in this case is to obtain incontrovertible proof of IS activities by the Soviet Mission, as well as to disclose the ramifications of such activities.

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c. The "Bohemia" case resulted in the determination of the complete organization of the Czechoslovak Military Intelligence, its intelligence briefs, and lists of its agents in Germany and Austria. This operation, still being continued, has led to the arrest of some 20 proven Czechoslovak intelligence agents by CIC.

9. The cases cited above demonstrate clearly that despite attempts to confine CI activities strictly to the III A category (i.e. protection of own operations from hostile surveillance or actual penetration), RUSTY has inevitably found itself interested in and pursuing cases of a III C or III F nature (external observation, or actual penetration, of RIS and related activities as intelligence targets in themselves, rather than as cases of self-protection). Thus RUSTY has exceeded the limitations placed upon its counter-intelligence activities by the basic EUCOM directive of 13 October 1948 (Annex B) which states in part:

"The Organization will conduct only the minimum counter intelligence operations required to protect operations. No attempt will be made to penetrate the KPD or any foreign Mission without prior coordination with Headquarters, 7970th CIC. Should a member of the Organization successfully penetrate an organization of counter intelligence interest in the US Zone while in pursuit of other missions, CIC will be notified without delay, and the agent either will be placed under the operational control of CIC or withdrawn if CIC considers such action preferable..."

In pointing out that RUSTY has exceeded the limitations above, it is only fair to add that the directive cited is of recent date, and that RUSTY, although on occasion initiating prescribed operations without prior coordination, has made every effort not only to inform CIC of the operation, but more important, to secure as complete coordination as possible.

10. This latter point deserves further elaboration: There is absolutely no question but that RUSTY is not only willing, but is expressly anxious to better coordination of their operations with CIC interests and direction, for the accomplishment of which frequent recommendations have been made to the investigator that a competent and experienced CIC officer be assigned to RUSTY for direct and continuous liaison purposes. Equally obvious is the fact that RUSTY's near-vehemence on this point stems from a clear recognition that the III C or III F (CE) type of case can be developed and carried to completion only by the use of executive authority, i.e. the ability to secure play material, to conduct interrogations, to make arrests, etc. Since such executive authority is in American hands, RUSTY is genuinely anxious to establish in such cases close coordination with a competent American executive agency. Despite this desire, RUSTY reports that their relations are excellent with CIC in Munich and Nuremberg only; elsewhere, due to poor liaison, a feeling of competition or even hostility is more apt to prevail.

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11. Three Inclosures are attached to this Tab which either reinforce or complement material contained in the paragraphs above:

Inclosure A: A list of counter intelligence projects for providing information on specified targets. This list covers projects completed, in operation, or in preparation. No attempt has been made at this time to record these operations in detail, although such details have been discussed verbally in some cases and although occasional reference to some of these projects has been made elsewhere in this Report.

Inclosure B: A description of Organization 114 intended to give a general and fairly complete picture of the structure, size, functions, and operations of one of RUSTY's CI units in the field. Again, no effort has been made to cover each of 114's operations in detail.

Inclosure C: A description of emigrant groups as seen by RUSTY, including a brief description of RUSTY's main interests and connections with these groups.

12. In summation of the above comments and those contained in Inclosures A - C, it appears at this moment that the following tentative conclusions may be drawn:

a. Recognized procedures designed to obtain maximum security in recruitment, training, and operations have been firmly established in principle by RUSTY.

b. In the majority of cases, these procedures appear to have been understood, accepted, and put into practice in the field more often than not. (It should be noted, however, that a CI organization would be more apt to observe such procedures in toto than a positive intelligence organization.)

c. Generally speaking, extensive and detailed biographical and other agent control material is collected, reviewed, and retained at the Main Residentura (and Organization) level.

d. Minimum agent control material is received and incorporated into central agent files at headquarters level.

e. The weight of any decision, therefore, to recruit, to continue in operation, or to fire agents rests with the Field Organization: which has available to it the greater portion of

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agent control material and of the details of day-to-day operations such decisions are, however, always subject to final review and confirmation or veto by headquarters.

f. At Field Organizational level, control and security of operations in progress is based primarily upon continuous analysis of the agent's day-to-day operational activities, coupled with detailed background knowledge of the agent's capabilities and limitations; at headquarters level, control and security of operations in progress is based primarily upon continuous analysis of internal evidence in reports submitted, coupled with comparative material contained in other reports and in the personality, organization, and city files.

g. RUSTY appears to have made, and to be making, considerable headway in penetrating, controlling, and/or establishing close cooperation with the various police agencies in Western Germany, for the express purpose of procuring additional protection of its operations, and of securing subsidiary police services in investigative, housing, documentation, and other similar matters.

h. CI operations have been extended into the CE field with some success.

i. Complete exploitation and development of RUSTY's CE potential cannot be accomplished without the use of executive authority; at present, if CE operations are to be developed and extended, the solution must be found in the establishment of close coordination and cooperation between RUSTY and some American executive agency.

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TAB 6
Inclosure 1

1. Counter intelligence projects for providing information on specified topics have been completed, are in progress, or are in preparation, as follows:

a. Completed or Under Operation:

Detection and observation of Soviet IS connections, especially in the following cases:

- (1) CSS (Centrale Sanitaire Suisse).
- (2) Organization and structure of the Soviet News Agency (SNB) in Thuringia.
- (3) KUKOVICH - Communist action committees.
- (4) Jewish-Communist underground movement.
- (5) YAKUSHEV Case; evidence of IS activities by the Soviet Mission in ANSBACH.
- (6) SCHACHT Case; Soviet economic espionage.
- (7) Terror group of ZERGEYEV.
- (8) WARSAW-Polish IS in the Western Zones of Germany.
- (9) Continuous observation of individual emigrants and emigrant organizations regarding their IS and political activities.
- (10) Continuous observations of the police forces in the Soviet Zone of Germany and their penetration by the NKFD.
- (11) Operation "Bohemia": Organization of the Czech Military Intelligence Service. Information concerning 48 agents operating in the Western Zones of Germany, who were arrested on charges derived from this information. Information concerning agents in Austria. Original material of a Czech IS agency (orders, directives, etc.).
- (12) III/F action concerning the Czechoslovakian Consulate in MUNICH. Promising work by an agent of this project, who has direct contact to the Czech Vice Consul Dr. BENES. Most valuable information has already been obtained.

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- (13) Hungary: Summary on the activities of the Hungarian Restitution Commission, as well as a large number of individual reports concerning the same personalities.
 - (14) Yugoslavia: Information concerning the Yugoslav IS (UdB, OZNA, etc.).
 - (15) Rumania: Information concerning the Rumanian IS. Information concerning the State Security Police, Regular Police, and Criminal Police.
- b. Initiated:
- (1) Extension of an intelligence net in the police force of the Soviet Zone of Germany, covering the entire zone.
 - (2) Infiltration into MGB offices.
 - (3) Czechoslovakia: Continuation of the current III/F action concerning the Czechoslovakian Consulate in MUNICH. Efforts will be made to use the information obtained from Operation "Bohemia" for future operations.
 - (4) Poland: Information concerning the IS activities.

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Tab 6
Inclosure 2

ORGANIZATION 114

1. Organization 114, a CI Organization subordinate to Sub-Headquarters 17, is located at Gerwigstrasse 36 in Karlsruhe. It is headed by Mr. LEIDL, a former Abwehr sergeant with wartime experience on the Western Front. The five-room apartment (including kitchen) at Gerwigstrasse is also the home of Mr. and Mrs. LEIDL who have retained control of the extra room used as the organizational office by listing it with the Wohnungsamt as the office of a small firm owned by Mrs. LEIDL.

2. LEIDL's staff consists of

- a. A reports sifter, who is also responsible for recasting EEI's in form suitable for use in the field;
- b. A deputy to a. above who is also responsible for working on 114's emergency evacuation plan;
- c. A typist/secretary;
- d. An administrative officer;
- e. A CI instructor (Wuehlmann) stationed in Heilbronn;
- f. A part-time secretary, drawn from Mrs. LEIDL's firm;
- g. A courier;
- h. Two drivers, used primarily on the courier run to 17.

3. 114 has a total of some 400 people working under it directed by the following Main Residenturas:

a. ~~██████████~~ *British zone*, with center in Mannheim. The chief is a former intelligence radio monitor. Primary task is to protect positive intelligence organizations operating out of the ~~██████████~~ *British zone*. No written EEI's are sent to the ~~██████████~~, and, in order to avoid the ~~██████████~~, Cassel is used as a collecting point for written material being passed to Mannheim. *British zone*

b. Odenwald, excluding the Rhine plain, with center at Eberbach. The chief is a former police colonel in the General Staff. Primary task is to survey the area for likely safe houses, disposal places, etc. No special cases are being run by this Main Resident who has, however, some possibilities in the direction of the Hessian Border Police.

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c. Hesse, from Frankfurt to Cassel. Chief is a Kriminalrat and former chief of German MP's during the war who has, therefore, good connections with the Hessian Ministry of Interior, the Frankfurt police, and also with Trade Unions in the area. His primary task is the surveillance of Soviet and other foreign missions in the area. Due to his connections with the Frankfurt police he has managed to have two policemen assigned to 24-hour surveillance of the Soviet Mission there. He has good connections with the former director of the police schools in the [redacted], now the present chief of the [redacted]. Other duties include investigation of RUSTY incidents in the Soviet Zone and the interrogation of Antifa personnel.

British Zone

*British Zone
Border Police*

d. Coburg, from Hesse to Passau. Chief is a Kriminalrat. Primary task is to survey the entire US-Soviet Zone border area, including the areas of Wuerzburg and Nurnberg. To accomplish this task, he has attempted to establish a network in the Border Police for a depth of 25 kms. on each side of the border. On the US side, there is no crossing point which has less than two RUSTY personnel in the border police. At present, due to personnel changes on the Soviet side, attempts to organize contacts in the Soviet Zone Border Police are strictly limited to vetting various individuals through a third person. Coverage of the border is considered an important task, particularly in the event that the air bridge to Berlin may cease. This Main Resident had also established a residentura in Berlin, now directly controlled by LEIDL himself. Courier lines, using the transport firm of SCHENK & Co., are still, however, being run from Coburg. Considerable effort is also made to cultivate contacts in the Land police, both in order to be informed as to people coming into the area for short periods of time, and in order to obtain necessary assistance in housing, legalization, and other living problems at present subject to tight regulations.

e. Munich, including Ober-Bayern south to the Austrian border and west to and including Ulm. Chief is an ex-leader in III H OKW with good connections into the Munich Kriminalpolizei. Primary task is the external security of the Compound in Pullach. In addition, however, he is running a group of German-born Russians. Due to the fact that personnel of his Residentura were former police and/or Gestapo personnel who in their previous positions had concentrated on then illegal KP activities, this particular Main Residentura is also running actual penetration operations with sufficient success to enable it to hope that it will be able to prove (illegal) cooperation between the KPD and Soviet Missions in the US Zone, and ultimately with the Cominform.

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f. North Wuerttemberg, with center in Stuttgart. Primary task is to watch Yugoslav and Soviet missions in this area, the CSS, and to build up files of all Antifa personnel among returning PWs processing through the Ulm-Kienlesberg camp. This Residentura has two ministers as agents, the Minister of Economy, and the Minister of Interior, and hopes from the latter to be able to have a CI controlling interest in all key police positions in Wuerttemberg-Baden within the next two to three months. Again, basic interest in the police lies in their ability to make basic investigations without cost to RUSTY, and to assist in matters of housing, ration cards, etc. Another factor which is making the police increasingly important is that MG is now allowing the German police to enter DP camps, etc.

g. Berlin, which previously was under the Coburg Main Residentura. Chief is an ex-Colonel in OKW III, and one of his principal assistants was formerly chief of Admiral CANARIS' "Hauskapelle", i.e. the protective group for the top staff. Both, consequently, not only have special connections with III F personnel, but since they are well-trusted by ex-Abwehr personnel, are able to establish working relations with persons now living in the Soviet Sector of Berlin who would otherwise be reluctant to expose themselves. Primary tasks are the location of MGB (and MVD) installations and personnel in Karlshorst, the development of high connections with the SED and other Soviet-sponsored organizations, the surveillance of "cultural Bolshevism" targets (Kulturbund, etc), and the surveillance of Consulates General and Missions of the various satellite countries. Within the past six months this Residentura has established connections with a woman in an MGB office in Karlshorst (although complete control is not yet certain); not only has an agent in the Yugoslav Trade Mission, but also controls the chief Berlin agent of the Yugoslav IS; and has two agents located in the DWK and the Transportation Administration respectively. In addition the chief of the Soviet Zone police school is an agent. Through him are obtained such information as names of students, schedules, names of political commissars within the police, names of high-ranking NKFD officers going through the school, the entire organizational plan for the Soviet Zone police, monthly copies of the police "Fandungsbuch" (record of searches) etc. This residentura is hopeful that within another half year it will have agents placed in all main offices of the Soviet Administration. Such coverage has already proven of value to the positive intelligence personnel by forewarning of surprise dragnets, arrests, travel controls, etc.

French zone
h. ~~██████████~~, with center in Gernsbach. This was described as a small "illegal" (because not authorized by EUCOM) residentura originally established because of strong communist

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influence in the Sécurité which necessitated, therefore, special efforts to protect operations running through this Zone. Chief has been an intelligence officer since 1926, and lives in Heidelberg where he previously had been a university professor. He is popular with the [redacted] because he was known as an anti-Nazi in Alsace, and the [redacted] are unaware of his intelligence experience. Despite apparent lessening of communist influence in the past year, the primary task continues to be protection of operational lines through the zone, plus surveillance of CCS activities in that area. *French*

i. Karlsruhe. This is a Russian group headed by one SONIN, an ex-MVD Lt. Colonel who had received special MVD schooling and had had CI experience in the Far East. He deserted to the Germans in 1943, served in the OKH as an interpreter, and later as an interrogator at ECIC. LEIDL developed this group very cautiously, particularly since it was nearly a half a year before he became convinced that Russians with current knowledge of RIS experience, etc., were absolutely essential in the CI field in Germany. SONIN was closely investigated by LEIDL, who also tested him with known EEI's, and in addition had both the Munich and the Stuttgart Main Residenturas watching the SONIN group. Finally, SONIN requested Russian-speaking Germans in each of his Residenturas, which provided LEIDL with yet another means of checking on his activities. SONIN's group is about 100 strong now, although it was carefully built up according to the best MVD principles of organization. Primary tasks are to survey all Soviet and satellite missions, and secondarily, emigrant groups. In special cases, such as doubling, SONIN is used as interrogator. SONIN's interpreter speaks excellent Polish, and has built up a small Polish net which includes personnel in the Polish Consulate General in Munich. According to LEIDL, very little is known about the Polish IS since the Poles have profited considerably from past mistakes. Since, however, Germany has some 700,000 non-DP Poles, Polish intelligence activities are considered of special CI significance.

j. A Hungarian group, headed by a former "General of the Gendarmerie", chief of "Rote Abwehr", and contact man with Warsaw, was passed to HUSTY by CIC Region IV. It was given the assignment of determining the existence or non-existence of the MGB/MVD in Prague and Budapest, and of developing an accurate picture of Hungarian IS and Communist Party activities and organization, with the Cominform as the eventual target. Although the group has good connections with the Hungarian Ministry of Interior and General Staff, LEIDL considers them the most untrustworthy of all Balkan groups. Off and on this group has attempted to re-establish American contacts, in the process of which they have exaggerated their own importance. Finally, the group operated over a year without cover, and therefore LEIDL considers they must be compromised. The group has been given until March 1949 to prove their organizational and intelligence value.

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Note: Possibly this is the group which was reported in the Spring 1948 by [] to be objecting strongly to control by former German General Staff officers, and to be seeking direct American contact.

4. Several cases are perhaps worthy of special mention:

a. The "Soviet Mission Ansbach" or "YAKUSHEV" case: This case was developed by the German-Russian group under the control of the Munich Main Residentura. After a year and a half of surveillance of suspect personnel, this specific operation developed upon the recruiting of a RUSTY agent, a former MVD major living in Augsburg as a DP, by Soviet agent YAKUSHEV who informed the RUSTY agent that his recruiting was subject to the final approval of the Soviet Mission in Ansbach. The immediate aim of the operation is to obtain conclusive proof that the Soviet Mission is engaged in genuine IS activities. The case is being coordinated with CIC Region IV, and play material has been obtained both from CIC and from Lt. Colonel Berry, USAF representative with RUSTY.

British Zone

b. One of the agents of the [] Main Residentura operating in the Pfalz (primarily on the CSS) came in contact with a small group or "circle" of Strasser followers who are organized in Germany under the direction of a certain PARTENEAU. Followers are located in Berlin and in the three western zones. A meeting was held in Tubingen several months ago to discuss arranging a license to operate as a group under the title of "German Union". The RUSTY agent, who owns a bookstore in Berlin, attended this meeting where, through a Berlin member of the group who had good relations with the [], he was asked to undertake building an intelligence net for the [] in Berlin. RUSTY authorized the agent to go ahead, and at present, completely at [] expense, he is running a net directed exclusively against the Soviet Zone. His net is now turning out daily APO and vehicle numbers, traffic from Soviet teletype lines, etc. Reports are turned over to the controlling [] officer in the Zone rather than in Berlin. Each pouch therefore goes through 114 en route to the [], and since all reports are submitted in two copies, 114 extracts both copies of all top reports, and the carbon copy of all the other reports which are then marked to indicate that the [] have the original. This operation represents, of course, penetration of the FIS, and 114 admits that inevitably it becomes aware of certain [] EEI's, etc. It emphasize, however, that its primary interest from the very beginning has been in the procurement of positive intelligence without expense to the organization.

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5. 114's primary overall function as a CI organization is to protect the security of RUSTY's positive intelligence operations. Thus, in addition to providing security for active operations and related assistance in the form of safe houses, ration cards, etc., 114 is also asked to investigate potential recruits of the various other organizations. Normal investigative procedures are used as described in para. 3, this tab.

6. 114 devotes equal attention to its own recruitment. After biographical and other material comparable to American agent control material is accumulated, a decision regarding employment is made by the Main Residentura in consultation with 114 and the instructor. This material remains in the permanent files of the Main Residentura, but, once satisfied that the recruit is reliable, all copies in 114 are destroyed after the following basic information has been extracted:

Name	Date of Birth
Address	Telephone No.
Marital Status	Wife's Name
No. of Children	Profession
Kennkarte No.	Physical Description
Political Orientation	Organizational Assignment
	Date of Recruitment

Note: It is this basic information, now retained at Organizational level, which ICO (7) is gradually bringing into its central agent control files.

7. Since the training school (107) trains only positive intelligence personnel, 114 has its own CI specialist as an instructor. The size of 114 prohibits regular and thorough training of the some 400 members, and consequently an assistant instructor is assigned to each of the Main Residenturas. These assistant instructors visit the instructor twice a month, bringing with them all raw reports collected since the previous meeting, and discussing them, together with any other problems, in order to get the benefit of the instructor's advice. In special operational cases, the instructor will personally take charge, but the appropriate assistant instructor will share in the training program.

Note: This description of the instructor's duties makes it apparent that to a certain extent he combines the duties and functions of an operations officer with those of a training officer.

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8. In the Residentur areas, training is usually done in small hotels of the type catering to salesmen, small business men, etc. In addition, the Organization has the use of two private hunting lodges, one for routine training and the other for radio training. The advantages of these lodges are two: they are on private and isolated estates, and as such, are not subject to police investigation.

9. The instructor himself lives in Heilbronn in a house which is used for disposal cases. This gives him an opportunity to interrogate incoming personnel for operational details as to why they were blown, etc., enables him to check such personnel for possible penetration cases, and gives him time to locate housing and new employment for them.

10. An Emergency Evacuation Plan, keyed to the over-all RUSTY plan, contemplates the movement of some 240 persons, including families, south to Singen and thence, if possible, to Colmar, an area which LEIDL knows thoroughly and in which he has a number of professional (wine merchant) friends. Sleeping agents are being developed under the over-all direction of 17, and some 45 radio operators are being investigated for war-time use. Emphasis is on radio since, from the CI viewpoint, LEIDL believes "radio play" will be the main target. The plan presupposes that the first organized line of defense will be along the Rhine, and that approximately 15 days after the start of hostilities direct contact can be made with the US Army. Adequate transportation is available or arranged for, and rations for 15 days are being collected or have been requisitioned. The main administrative problem still to be solved is the stockpiling of adequate gasoline reserves in Singen.

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TAB 6
Inlosure 3

1. Although RUSTY states that its primary interest in keeping an eye on the various emigrant groups is for the purpose of protecting its own operations from hostile surveillance or actual penetration by any of these groups or members thereof, it is apparent that over-all RUSTY interests fall in four parts:

- a. Protection of own operations (III A);
- b. Collection of positive intelligence by these groups or individuals thereof;
- c. Construction of a complete and current picture of the most important emigrant groups for the immediate purpose of better evaluation of reports submitted through these channels; and
- d. Surveillance of known or suspected hostile intelligence agents and activities which, although not essentially directed against RUSTY elements, are of CE interest as intelligence targets in themselves (III C or III F).

2. RUSTY makes three broad classifications of emigrant groups:

- a. Russian groups;
- b. Ukrainian, Polish, and other non-Russian groups within the Soviet Union; and
- c. Balkan groups.

RUSSIAN GROUPS (see Attachment 1):

3. Until recently, a clear-cut distinction was made between the so-called "Old Emigration" and the "New Emigration". Recently, however, the two groups began to come together in the AZODNR (Anti-Communist Center for the Liberation of the Russian Peoples). Nonetheless, ideological convictions are usually all that remains to emigres, and one common characteristic, therefore, of all emigrant groups is the adherence to a narrow ideology, all deviations from which are hated and slandered. Despite partial unity obtained in the AZODNR, therefore, strong suspicions and antipathies still exist between the two groups, with the "new" emigration accusing the "old" of being politically disinterested and living primarily for its own well-being, or that its political views are based upon ignorance and lack of experience with present developments in the Soviet Union; on the other hand, the common accusation leveled by the "old" against the "new" emigration is that it is unfamiliar with non-Bolshevistic, i.e. democratic concepts, and that it is not really anti-Communist, but is merely fighting excesses of communism. (For this reason, RUSTY, when evaluating the claims and counter-claims of one group vis-a-vis another, habitually extracts 50 - 60% of the comments as being unreliable).

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a. The Old Emigration in the main is comprised of organizations formed between the Revolution and 1922, and its ranks are primarily filled with veterans from White Russian armies. The three principal organizations are

(1) WMS (Supreme Monarchist Council), a small faction of old-timers adhering to the concept of Czarist rule. The monarchist idea is not popular, and the group is therefore small. Nonetheless, it has some clever individuals, the most important of whom is a Mr. S. RURILEW, and it is determined to play an active part with the New Emigration. Due to its activity it does, in fact, play a larger role than that to which its numerical following should entitle it.

(2) NTS (National Workers' Union), described by RUSTY as an honorable and reliable group whose principal preoccupation is with the vocational training and placement in various Western European countries of its second generation. It has taken great care to avoid penetration by the Soviets.

(3) ROWS (General Russian Veterans' League), established in the early 1920's in Sofia, and composed of the majority of emigrant veterans who fought the Communists during the Russian Revolution. Its leadership is quite old, being headed by Gen. ARCHANGELSKI, who is over 80 years of age.

b. The New Emigration received its organization impetus in 1944 with the publication of the so-called "Vlassov Manifesto" in Prague which outlined two main points, the overthrow of Bolshevism, and the right of self-determination of future government(s). Since that time the principal groups which have arisen or have been modified are

(1) KONR (Committee for the Liberation of the Russian Peoples), founded by Vlassov, and out of which two main subordinate groups developed:

(a) ROA, the political element of the KONR; and

(b) BSM (Fighting League of Russian Youth), the militaristic and youthful element of the KONR.

(2) SBONR (Fighting League for the Liberation of the Russian Peoples), an outgrowth of the BSM, which developed intelligence and propaganda functions.

(3) SAF (League of Andrews Flag), which contains elements of the earlier ROA, and which also has close associations with the SBONR. Considerable influence is exercised on this group by Gen. GLASENAP.

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(4) AZODNR (Anti-Communist Center for the Liberation of the Russian Peoples), formed recently and claiming leadership of all groups, not only of the New Emigration, but of the Old as well. It is recognized by the majority of the groups, derives its leaders primarily from the Old Emigration, and its followers primarily from the New, and is, in a sense, the nucleus for a united Russian Government-in-exile. After its formation, however, a split occurred between two of the important leaders, KROMIADI and GLASENAP, and the latter withdrew from AZODNR, together with his principal associates. AZODNR, however, retained control of SAF by decree. Because it is the strongest central authority in the over-all Russian emigration, AZODNR, together with SAF and SBONR, appears to have been fairly well penetrated by the Soviets (see names in red on Attachment 1).

c. A new factor in the Russian emigration picture has appeared recently in the persons of a Mr. fnu DALIN and Mr. fnu NIKOLAJEWSKI, both former members of the pre-revolutionary Social (Democratic) Revolutionary Party, and men with Menshevist leanings. Both live in New York. In 1947, NIKOLAJEWSKI toured Germany for the purpose of recruiting followers, and this year DALIN had meetings with nearly all of the Russian groups for the purpose of organizing a new socialist Russian emigrants' party. Although the Old Emigration refused cooperation, DALIN gained some followers in the New, particularly in the SBONR, and to some extent in the AZODNR, itself. The final outcome of these discussions is not yet clear, but numerous miscellaneous socialist and Marxist groups appear to be representative of the DALIN and NIKOLAJEWSKI program. Also interesting in this connection is a recent RUSTY report to the effect that the U.S. is interested in establishing a new propaganda center, to be headed by an Frau LABKI in Munich, to influence the Russian emigration as a whole and to spread "the U.S. viewpoint". LABKI, a U.S. citizen, is said to have recruited DALIN as an advisor. DALIN, who published two books in Paris during the War with pro-Soviet leanings, is not considered by RUSTY to be representative either of the Russian emigration or of the U.S. viewpoint.

4. RUSTY's own positive intelligence connections with the Russian emigration originally resulted from the pressure for production in the Fall of 1947, at which time Mr. BAEUER dealt with the various groups on a group rather than individual basis for the purpose of utilizing their connections and channels for the transmittal of positive intelligence. Primary connections were through BARANOWSKI (F) and GLASENAP. Experience taught, however, that considerable political problems were inherent in dealing with groups as a whole and with being responsible, therefore, for their over-all security and protection from interference by local agencies. It was therefore decided to work solely with BARANOWSKI (described as an a-political and professional intelligence

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man) who would be totally responsible for the security and welfare of any groups or other individuals he might care to use. For a year and a half, therefore, RUSTY's operational interest on the one side lay in BARANOWSKI as an individual, and on the other side in GLASENAP and his intelligence associates as a group, i.e. RUSTY provided group, rather than individual protection. (GLASENAP's group contained a number of German Staff Officers). GLASENAP became, however, more and more interested in politics, and several months ago, Dr. SCHNEIDER decided to drop him, while maintaining some social contacts. GLASENAP agreed, though somewhat reluctantly, that RUSTY could deal directly with the German officer who took over direct control of the intelligence activities of his group.

5. Politically, RUSTY considers that the ADZODNR is the most representative of all Russian groups, although its leadership is not unchallenged, and although it is to a slight degree penetrated. The latest declaration of the plenum asking for support of the emigres and for a definite statement from the Western Powers as to how they intend to handle the Russian peoples after the defeat of the USSR indicates that the ADZODNR is definitely seeking unofficial backing. RUSTY is at present translating a study on this question which was initiated as a result of discussions on this subject four or five months ago with Mr. Dulles, Mr. Offie, a Mr. Davis, and others.

UKRAINIAN GROUPS (see Attachment 2):

6. The political complexion of the various exiled Ukrainian groups ranges from the leftist URDP (Revolutionary Democratic Party), with an even more leftist and suspect sub-group, the URDP(s) in Regensburg, to the extreme rightist OUN(R) party of Bandera, standing for the fascistic principle of a one-party government and one-party state.

7. After the war, the problem faced by the various groups (see attachment) within the Ukrainian emigration was one of effective unification. Finally, in July 1948, the UNC (Ukrainian National Council) was revived with the support of all groups except the Hetman Party. To get Bandera's cooperation, UNC made the concession that Bandera should be responsible for partisan activities in the Ukraine and that he should still be entitled to continue UGVR (Ukrainian Insurgents Army). UNC then proceeded to the election of UNR (Ukrainian National Government). Sometime thereafter, both the leftist parties and Bandera withdrew their support from the UNR with the result that today UNC is supported by all parties except the Hetman, but UNR, under UNC, cannot rely on the wing parties.

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8. RUSTY is beginning to believe that UPA and UGVR have been highly over-rated, citing the fact that when the Soviets started their last attempt to smash UPA in the Ukraine, UPA personnel trickled out by the dozens only. In RUSTY's opinion the influx into western areas would have been far more considerable were there in fact strongly organized and numerically large UPA bands operating in the Ukraine. Even within OUN(R) (Bandera) the same doubts appear to be gaining circulation, particularly at the "followers" level, and questions have been raised as to what courier channels exist to the Ukraine, as to where money collected from Bandera supporters is going, etc. A RUSTY agent, described as "absolutely reliable", and a member of UNR, has also informed RUSTY that he doubts the existence of UPA in any form other than small groups hiding in woods for self-protection, and that UNR's lip-service belief in the existence of well-organized UPA groups is to a large extent due to the desire to secure Bandera's cooperation and thus to attempt to maintain as united a front as possible within the emigration. The majority of the intelligentsia among the Ukrainian emigration, including those who are post-war emigrants, follow the UNR, and not the Bandera complex. RUSTY points out that these comments and tentative conclusions might not be valid in the event of war, in which case strongest support within the Ukraine would be given to any group or groups, regardless of other political factors, who offer liberation from Russia. At present, however, RUSTY has concluded that the entire OUN(R) - UGVR - SPUGVR - UPA complex should continue to be watched, but deserves little consideration in terms of material support and of far-reaching intelligence usefulness. UNC and UNR are cited as the central organs most deserving of support, if any is to be given.

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Note: It may be of some interest in comparing these comments and remarks with those contained in [redacted] ([redacted]), to note that the main source of the latter, Hrinioch, together with Lebed, have been fired within the past several months according to an unevaluated RUSTY report.

9. Below the levels discussed above are three main organizations representative of peoples contained within the boundaries of the USSR who are absolutely anti-Russian:

a. ABN (Anti-Bolshevik Peoples' Block), comprised primarily of Ukrainians and at present headed by STETSKO, and propagates the conception of a Greater Ukraine, freed from the Bolsheviks.

b. Promethean League of the Atlantic Charter, founded in Warsaw, and propagates the concept of an "inter marium" nation, i.e. from the Baltic to the Black Sea, under the hegemony of Poland.

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c. "International of Freedom", which is made up of Balkan and Caucasian nations, and attempts to include all nations of Slavic origin ruled by Moscow. It appears to be penetrated by the Soviet IS (red-lined names on Attachment 2). The International of Freedom is supported and influenced considerably by a cosmopolitan group meeting generally in Traunstein on a social basis.

d. These three groups sometime ago agreed to form a representative top organ, the ALON (Anti-Bolshevist League of National Liberation). This, however, never developed beyond the paper stage, and at present seems to be supplanted by the so-called "Federalist Club" which is being founded in Munich under Polish leadership and with a program of self-determination for all non-Russians.

Note: Schandruk, described as questionable from CI viewpoint and as an "intriguing and opportunistic turncoat", appears quite active in the formation of the Federalist Club which may be, in fact, the new "Ukrainian intelligence service" in which he has been attempting to interest U.S. agencies (see [redacted] and related references).
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e. Two other groups of minor interest are

(1) BZR (Byelo-Russian Central Council), headed by one OSTROVSKI, which wants a separate and independent Byelo-Russian state with friendly relations with a non-communistic Russia; and

(2) RBNR (Council of Byelo-Russian Peoples' Republic), or "Krivichi", which has the same aims, but wants orientation towards Poland. This is an active group, and for some time received financial support from the London Polish-government-in-exile. Interesting is the report that recently it got in touch with the Polish Mission in Regensburg, from which some slight support was received.

10. Some of RUSTY's contacts with the various Ukrainian groups are shown (underlined in blue) on Attachment 2. In addition, Organization 66 has two radios set up and working in Poland and in Slovakia using Ukrainian channels. Some use has been made of UNR's border crossing points and courier lines for the transmittal of information. RUSTY also has a line into the SPUGVR and, at Bandera's request for a "high American contact", is making arrangements for Capt. Waldmann to meet with Bandera and Stetsko sometime between 16 and 20 December. RUSTY believes, however, that this meeting represents an attempt on the part of Bandera to bolster a progressively weakening organization.

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11. RUSTY has practically no current information on the activities of Polish emigrant groups other than a very few reports on WIN and on the activities of MIKOLAJ in Regensburg, the latter being spasmodically reported on by the RUSTY agent in UNR.

12. RUSTY has limited information on the Czechoslovak emigration which they divide roughly into five principal groups, the SIDOR group, strongly Catholic, pro-Polish, and for an independent Slovakia; the Constantine CULEN group, also for an independent Slovakia, but opposed by the SIDOR group which accuses CULEN of being a Communist; the DURCANSKI group, into which RUSTY has some channels, which appears to have some support from Eva PERON and which has established a Slovak Action Committee in Argentina; the PRCHALA group; and the new Czechoslovak emigration. RUSTY does not make use of any of these groups for its operations into Czechoslovakia, and consequently does not observe them too closely.

BALKAN GROUPS

13. RUSTY subdivides the Yugoslav groups into Serbs and Croats, with the latter of which it has had no connections. The Serbs generally support King Peter under whom, through Gen. ZIRKOVIC, are three main groups:

(1) RAVNA GORA, headed by Gen. KALABIC, who considered himself as the successor to MIRAILOVICH. RUSTY had connections with this group, although it was forced to drop them after the Zagreb Trials which were a "heavy blow" to RUSTY operations in Yugoslavia.

(2) The "WHITE EAGLE", with whom RUSTY also severed connections after discovering that it was giving its reports to FSS, "SSU Vienna", and CIC Salzburg.

(3) "DUSAN SILNI", described simply as the most fanatical of the Serbian groups, and with which RUSTY has never had connections.

14. The one other national group mentioned in any detail was the Hungarian emigration in Germany itself, and primarily made up of the so-called FARKAS movement, the Hungarian Central Bureau, and the NMT (Hungarian Council in Germany).

a. The FARKAS Movement is headed by Col. F. FARKAS who considers himself to be the leader of the emigrant military movement. He has no political ambitions, and has been fostering Hungarian emigration from Germany to France. RUSTY has some connections with the Movement but considers them negligible in value.

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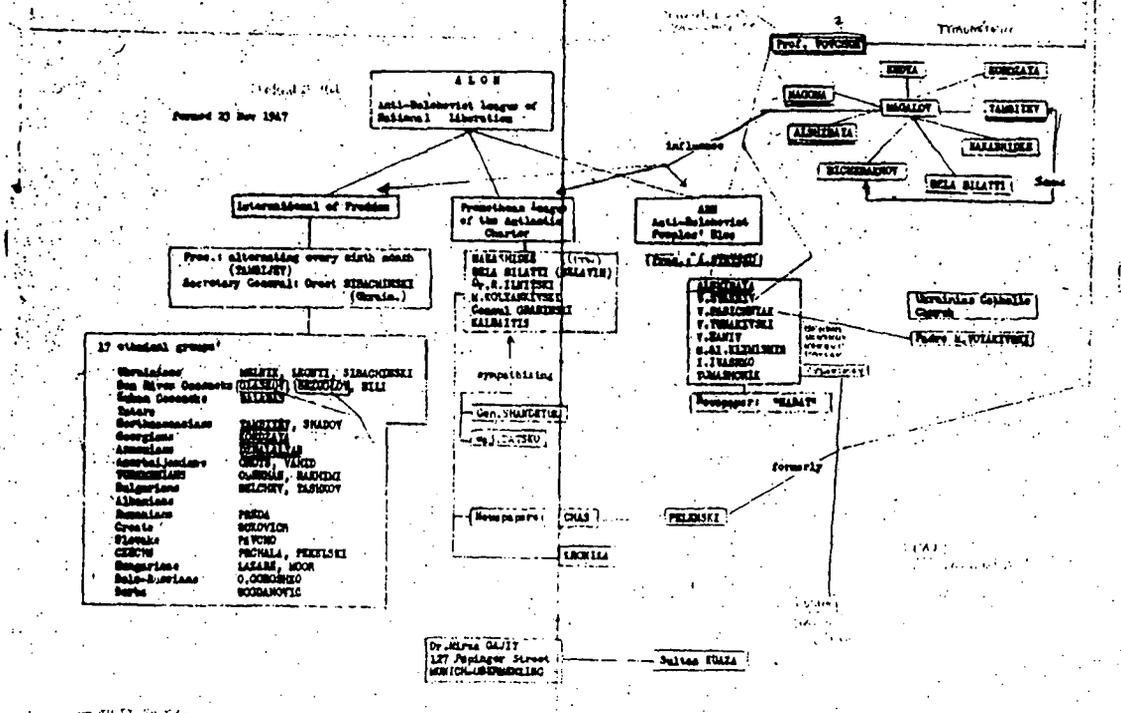
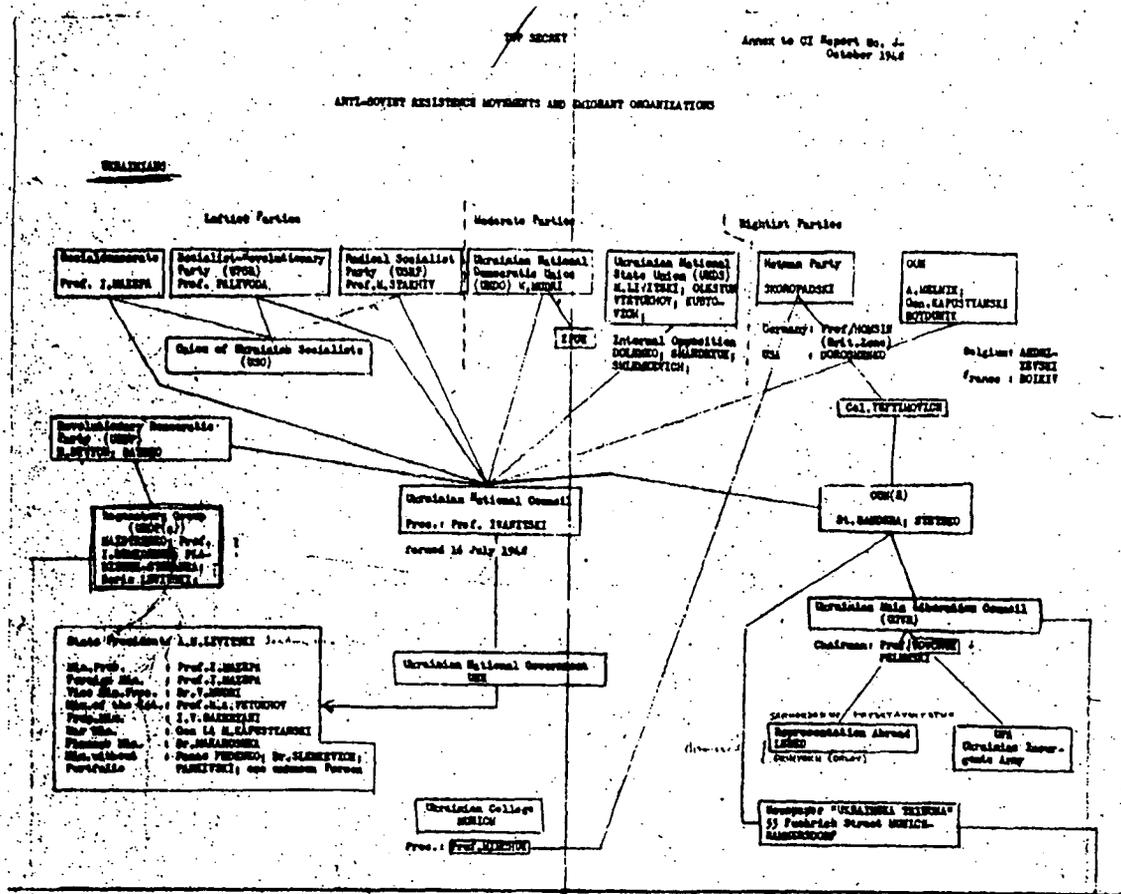
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b. The Hungarian Central Bureau, headed by ex-Foreign Minister HENNYEY, who negotiated the post-war treaty with the Soviets, wants to retain a centralized control of Hungarian emigrants in Germany, opposes therefore emigration out of Germany, and is consequently strongly antagonistic to FARKAS. Numerous reports of low evaluation accuse HENNYEY of working with the Soviets. RUSTY considers this possible, but unproven; it does, however, state that the Hungarian Central Bureau is definitely penetrated.

15. It is apparent that RUSTY's main interest in emigrant groups centers on the Russian and Ukrainian groups. Available material on other groups appears totally negligible in value.

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Signal Communications and Signal Intelligence

1. RUSTY Signal Communication activities can be divided into four categories:

- a. Internal Communications
- b. Signal Intelligence--Direction Finding Operations
- c. Signal Intelligence--Monitoring and Cryptoanalysis
- d. Agent Net Operations

The signal communications staff of the operation includes approximately fifty persons, mainly technicians.

2. A radio command net is currently in operation with stations located at BREMEN, FRANKFURT, BERLIN and MUNICH. US Army Signal Corps radios are used between MUNICH and BERLIN and between MUNICH and BREMEN; German radio-teletype (Feldfernschreiber) is utilized between MUNICH and FRANKFURT. The SCRs in BERLIN and BREMEN are at the disposal of RUSTY signal centers in those areas which service operations by direct contact and letter drops in Northern Europe and the Soviet Zone. Priority traffic only is handled by this means which is from three to eight days faster than courier. The greatest volume of traffic is carried on the radio-teletype between FRANKFURT and MUNICH. RUSTY has no access to military and civilian ground TWX circuits between FRANKFURT and MUNICH and their own radio-teletype is not capable of handling present traffic. Normal security measures are utilized in radio transmissions. Different type codes are utilized between MUNICH and each of the other three stations in the command net; lateral communications are unauthorized and impossible under existing procedure. Sub-organization leaders are equipped with TR 1 radio sets which are not used except for occasional testing and training operations. These sets are to be put into operation in accordance with present signal instructions only in the event of war. The lack of adequate communications facilities for rapid transmissions of information between the RUSTY Headquarters and its sub-organizations under present circumstances is the cause of considerable delay in the reporting of information and results in serious time lags in the transmission of operational information.

3. The signal intelligence activities of RUSTY are currently the subject of strong disagreement between the US Army and the US Air Force. RUSTY DF-ing and rapid cryptoanalysis of the monitored traffic of the tactical air nets of the Soviet Air Force in Eastern Europe has, according to Lt. Col. James Berry, US Air Force liaison officer with the 7821 Composite Group, been the single intelligence operation in the past few years that has been able to give the US Air Forces in Europe a timely and accurate picture of the activities of the Soviet Air Forces which

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are in a position to take immediate tactical action in Western Europe. This aspect of RUSTY operations has been technically equipped and logistically supported in a somewhat spectacular fashion by the US Air Forces in Europe. Only in the autumn of 1948, however, did the operation reach any kind of operational maturity. At this point the Army Security Agency informed the 7821 Composite Group that this activity was an infringement on the exclusive position of ASA in this field and in November 1948 directed them to cease operation. The Air Forces in Europe responded by sending an officer to make representation in Washington and by temporarily cutting off their support of the operation. To circumvent the ASA directive the local Air Force representatives took that segment of RUSTY engaged in this activity and nominally detached it from RUSTY and put it back into operation as an Air Force Intelligence Operation. Actually the DF-ing and monitoring activities remain an integral part of RUSTY and the present arrangement merely ensures that the Army officers involved can disclaim responsibility should ASA push its case. In the meantime the USAFE G-2 is again obtaining the results of the RUSTY Signal Intelligence effort. The real issue involved here is whether ASA, which undoubtedly furnished adequate signal intelligence of a strategic nature, is willing to go back into the business of furnishing the Air Forces in Europe with timely tactical intelligence obtained from the tactical traffic of the Soviet Air Forces. RUSTY cryptanalysis activities is limited to the tactical traffic of the Soviet and Ground Forces and a limited amount of traffic from Soviet MVD units. For this purpose RUSTY has secured the services of former German signal intelligence technicians who have had years of experience in analyzing Soviet tactical codes. The US Army Signal Corps Captain who supervises RUSTY signal operations states that the Soviet tactical nets are highly insecure, employ extremely simple codes which permit the deciphering of their messages in a matter of minutes and that the greatest loss of time occurs in the evaluation of the deciphered traffic and in the transmission of the resulting intelligence to USAFE Headquarters in WIESBADEN.

4. RUSTY maintains DF crews and equipment in the areas of BREMEN, FRANKFURT and Chiem See in Southern Bavaria. DF-ing stations are netted by Signal Corps radios with the net control station established at CHIEM SEE in November 1948. The only monitoring station also is situated at CHIEM SEE which is ideally located from a technical point of view. This monitoring station obtains effective coverage of tactical transmissions within a 400-500 mile range which includes all of central Eastern Europe. The Air Forces have indicated that their signal intelligence obtained through monitoring in the BALTIC Region is provided for by other arrangements.

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5. A similar operation utilizing Austrian cryptanalysts and US equipment and operated by the US Forces in Austria is in no way connected or coordinated with the RUSTY signal intelligence operation. The USFA operation, like RUSTY, concentrates on local Soviet Air and Ground Force and MVD traffic. The future plans for the RUSTY operations include an increase of short-range DF-ing sets to be integrated with the present DF-ing net to increase its flexibility and effectiveness in controlling Soviet Armed Forces movements in the Soviet Zone. It is emphasized that the entire venture of RUSTY in the signal intelligence field is only in the closing months of 1948 reaching operational maturity.

6. For the operation of agent sets RUSTY has been well provided with TR-1s from the surplus wartime stocks of the OSS; however, the deficiencies of the set which are well known to us have also limited its employment by them since the RUSTY operation began. At present RUSTY has only two stations active behind the Iron Curtain other than the Soviet Zone of Germany. One of these sets is in the LEMBERG, Poland, area and the other in Slovakia. Other sets dispatched to Soviet occupied or controlled areas have come to disaster.

7. In 1947 the RUSTY communications staff developed a new agent set and presented it to the Intelligence Division EUCOM with a request that the set be put into production. Arrangements were completed in the spring of 1948 and a US Signal Corps officer was dispatched to the US with the pilot model and a production order for 150 sets. These sets have been delivered to RUSTY, some modifications have been made locally, a limited number of operators have been trained in the use of the new sets and the first fifteen sets were sent into Soviet occupied or controlled areas during October and November; the first sets established communications early in December 1948 according to prearranged schedule.

8. A description and photographs of this agent set is attached to this report. One of the Army Signal Corps officers attached to the 7821 Composite Group reports that he has personally worked from Munich stations all over the USA with this set; the readability and signal strength of his transmissions were described as perfect (five by five in radio amateur jargon).

9. The RUSTY staff is obviously placing great hopes on this radio. It will, they believe, help to overcome the frequently voiced opinion that RUSTY reports are good but frequently appear to have been delayed too long in transmission.

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10. The present plan calls for placing agent sets at sensitive points along the ODER-NEISSE line and at all points where the Soviet RR gauge ends and the European gauge commences. In addition, they have a number of target areas throughout Eastern Europe which have been described as sensitive by the Evaluation Group. It will be several months before an accurate evaluation of their success in establishing agent sets behind the Iron Curtain can be made.

11. The recruitment and training of radio agents poses one of the most difficult problems. RUSTY is avoiding the use of operators with intelligence records, trained operators who were members of the German Army Signal Troops and amateur and commercial technicians. On the other hand, they concentrate recruiting efforts on radiomen who were crew members of aircraft and armored vehicles and became reasonably proficient as operators without ever becoming registered in existing records as an operator technician. RUSTY operates seven training points in the Western Zones of Germany; each of these is capable of training one operator at one time. The problem of getting a man out of the Soviet Zone or one of the Satellite Countries for radio training without blowing him at the outset is the most difficult aspect of training.

12. All transmissions to agent sets behind the Iron Curtain are controlled at central base stations under the immediate supervision of the Chief of the RUSTY Communications Section. No sub-organization possesses and controls its own agent radio communications.

13. The agent set described above is also being utilized in training and organizing the sleeping nets to be activated only in case of emergency. Thus far RUSTY has not considered water-proofing techniques necessary.

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The US Air Forces Interest In and Support of RUSTY

1. The US Air Forces have a twofold interest in the activities of RUSTY-- tactical interest on the part of the US Air Forces in Europe (USAFE) and a strategical interest on the part of the Director of Intelligence US Air Forces (Washington).

The US Air Forces in Europe (USAFE) is interested primarily in the tactical intelligence on the Soviet Air Forces in Germany and the satellites but receives copies of all RUSTY reports through their liaison officer with the 7321 Composite Group. This liaison officer has been with the group for a period of one year and exerts a strong influence on the air intelligence production of the entire project; through him the Air Forces have extended considerable support to RUSTY, particularly to those sections engaged in signal intelligence activities in the form of signal and other technical supplies.

2. USAFE maintains that RUSTY monitoring and cryptoanalyzing Soviet Air Force radio traffic is the only timely source of intelligence on tactical movement of Soviet Air in Central Europe and has thus given RUSTY strong support necessary to keep this element of RUSTY producing. The Army Security Agency has, at this time, not reconciled its views with those of Air Force on this particular aspect of RUSTY activity and the entire matter is currently under discussion while RUSTY signal intelligence, solely through Air Forces support, remains on the air.

3. The Director of Intelligence, US Air Force (Washington) receives a substantial contribution from RUSTY in the form of strategical intelligence in the form of target folders and studies on the concentration of key industrial and power complexes in the USSR. At present RUSTY is also examining the possibility of organizing evacuation and escape routes from USSR for use by US air personnel in event of war.

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TRAINING PROGRAM

1. The training school (107), directly subordinate to the leader of 7, and headed by a Mr. Körner, is located in Tegernsee. It was not organized in its present form until May 1948 due to difficulties in procuring adequate property. Consequently, a full and detailed course of instruction has been going on less than a year. There is an observably prevalent belief on the part of top RUSTY personnel, however, that even in this short time the school has materially improved methods of operations and security, and has already redeemed the majority of mistakes made earlier when total emphasis was on immediate production.

2. 107 is responsible for continual assessment of operational experiences and for re-casting these experiences into suitable teaching forms. It is conscientiously assisted in this respect by 7 and by the two Sub-headquarters of 7 (17 and 27), who pass to it full reports on all special operational cases, and provide it with detailed investigation reports on every case of a blown agent or agent chain. In addition, operational information extracted from reports, or produced as a result of PW interrogations and press analysis, are passed to 107 for incorporation into its training programs. Under 107 are three schools, one of which, physically contained within 107, is responsible for all training of Sub-Headquarters 17 personnel.

3. Schooling is tailored to the needs of the prospective student who has been previously selected by agreement between 7 and the appropriate Sub-headquarters. Prior to coming to the school, the student's reports for the preceeding several months are forwarded for training analysis, along with appropriate recommendations for special training emphasis. At the same time, the school itself forwards to the student basic training material to be studied and worked on prior to entering the school. Wherever possible, the student is accompanied in the school by his immediate superior, and often by the instructor (see paragraph 9 below), in order to maintain and strengthen during the training period the personal relationship and confidence existing between the two. Only those students already known to, and professionally associated with one another, are trained together. Consequently, two is normally the maximum number of students trained together at any one time.

4. Originally the concept of training had emphasized agent training. Experience indicated, however, that this had to be changed to emphasize staff training from the Sub-headquarters level down, so that sound superior direction could be established and so that no subordinate would be more familiar with proper operational procedures than his superiors.

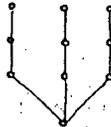
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5. A fundamental operational principle (which, judging by the considerable emphasis placed upon it, is somewhat foreign to past German intelligence experience) is that successful intelligence personnel must be led, rather than ordered. The school, therefore, not only teaches its concept of leadership, but also assesses all personnel passing through it for that quality.

6. The principle operational concept taught by the school rests upon the so-called Troika system:



This is emphasized as the ideal and guiding system to be followed in the construction of new chains. RUSTY, however, has the equally or more important task of improving the operational direction and security of already existing chains, a task which is considered both difficult and critical, since the school believes that mistakes once made in intelligence work can rarely be wiped out completely. Considerable training emphasis is, therefore, devoted to the problem of re-shaping a poorly organized network as closely as possible into the ideal Troika form. The school teaches the use of such devices as letter boxes, couriers, cut-outs, etc., to neutralize such original mistakes as internal communications, and to reduce the consequent security risks inherent in the chain concerned. In addition to these devices, the school teaches that every effort must be made to superimpose upon the least net independent channels for reports, for direction, and for supplies. Finally, all organizations are taught and required to set up emergency communications channels so that in the event of an incident (compromise) the Agenturleiter can be promptly notified, and in turn can take prompt steps to secure the remainder of his chain. In the past year, one common corrective measure apparently has been to withdraw the chain head across the border into a friendly zone after he has established his net or surrogates; thereafter, communications, etc., are maintained by courier, radio, or by having, where possible, the lieutenants make periodic crossings to meet the chain head (Agenturleiter). The titles of charts used to illustrate these principles give a general clue as to the direction of this phase of the training: "Troika" (classic chain structure), "Fuehrungswege" (channels of direction), "Meldenwege" (report channels), "Versorgungswege" (supply channels), "Sicherungswege" (emergency communication channels), and "Wer kennt Wem" (who knows whom). Greatest emphasis is put upon the latter, and all Agenturleiter are required to have such a chart completed of all their chains and on hand so that they may see at a glance what measures must be taken to secure other members of a chain from a blow or arrested member.

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7. Training subjects also include reports procedures, personal security, personal and organizational cover, etc. Technical subjects, such as radio communications are taught at special schools set up under the direct supervision of the appropriate headquarters technical section.

8. While it is normally possible to bring all people in the U.S. Zones (or other friendly zones) to the schools for instruction, it is not always possible for personnel in "enemy" territory to come out for instruction. Each school, therefore, has assigned a roving instructor (Wuehlmann) to each of the Sub-headquarters and special Organizations. When necessary, this instructor crosses into enemy territory to give instructions to the chief lieutenants of the chains, and these in turn pass the training on down through their own command channels. Although RUSTY continues to put a priority on proper training, it is somewhat unhappy at the obvious security risks involved in this traveling instructor solution, since it means that the instructor becomes familiar with all the chief lieutenants by name and address. Therefore, whenever an instructor is sent across the border, special attention is given to his cover, documentation, and briefing. Nonetheless, the basic security hazard remains, and RUSTY to date has found no solution which satisfies both training needs and security requirements.

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LIAISON POLICY AND PROCEDURES

1. Liaison with other US agencies, with representatives of other governments and with German officials in Western Germany offers the US and German staffs one of its most vexing and far reaching problems.

2. In general, liaison with other US agencies in the occupied areas of Germany and Austria has been a function of the US element of the 7821 Composite Group. There appears to be general agreement among informed EUCOM Staff officers, and US-German Staff members that this responsibility has not, for various reasons, been satisfactorily discharged and that many of the difficulties and apparent inadequacies of the operation stem from this shortcoming. In theory, all local arrangements with Military Government officials for the housing, documentation and legalization of RUSTY personnel in all parts of the US, British Zones of Germany and Austria are a function of the US Staff. Further, this staff is expected to do all the staff work necessary to ensure the logistical support of the operation and to contact other US intelligence organizations in Germany and Austria for the necessary coordination of RUSTY operations. The fact that the US Element of the RUSTY Staff for a period of almost two years consisted of two officers appears to be one of the primary factors causing many of its apparent difficulties during the first two years of operation. Thus, at the beginning of 1948 RUSTY had established a generally unsatisfactory relationship with all other US agencies in the US Zone. Since that time there has been gradual improvements made; a great deal remains to be done and steps are now being taken to improve the general relationship of RUSTY particularly with other US intelligence organizations.

3. As US Military Government has become less active in controlling the affairs of local German government officials, the effectiveness of the US Staff in solving local housing and legalization problems for Germans working for RUSTY has rapidly declined. It is becoming increasingly apparent that in the near future the German members of RUSTY will have to settle these problems by direct contact with German officials. Foreseeing this, RUSTY leaders have made a decided effort to establish contacts in the German government, particularly in the police, at all levels. German leaders of RUSTY stress the fact that, in their opinion, commercial cover for part of their organization is the best solution for the future; however, without a representation in the German Ränder and possibly local governments, they will not be able, as individuals, to conform to the numerous registration and documentation measures, now more complex than at any previous time in German history.

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British,
Italian,
Dutch,
Belgian,
Swedish, and
Norwegian

Franco
Spain

Spanish

4. Liaison with Foreign Governments and intelligence services is specifically prohibited by the basic operational directive to the 7821 Composite Group. With few exceptions, most of which are in connection with the Emergency Plan, RUSTY has not established liaison with foreign intelligence services. The German leader of RUSTY reports that they have no liaison with [redacted] and [redacted] Services. A close liaison exists in the form of an old personal friendship between the German leader and the head of the [redacted] police. RUSTY is in direct contact with the [redacted] Intelligence Service through its representatives in [redacted]. This contact stems from the former relationship of [redacted] and Admiral CANARIS who, according to Dr. SCHNEIDER, consistently influenced General I [redacted] not to enter the war. In repayment for his personal debt to CANARIS, [redacted] has now offered haven and support to Frau Erika CANARIS and her two daughters; this gesture, according to Dr. SCHNEIDER, has no intelligence implication. RUSTY representative in [redacted] is the ex-German Military Attache, General DOERR. The US Military Attache has been advised by letter from Colonel Schow of the true nature of DOERR's activities in [redacted]. DOERR has several other ex-abwehr officers with him. Communications to [redacted] go through the [redacted] diplomatic channels from [redacted]. Communications between RUSTY and the [redacted] have thus far been limited to problems relating to the possible use of [redacted] as a place of refuge for RUSTY in the event of war.

SWISS
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SWITZERLAND
FRANCO

SPAIN
SWITZERLAND
SPANISH
SPAIN

French
Switzerland
French

5. The only RUSTY contact with the [redacted] for purposes of liaison is with a [redacted] military intelligence representative in [redacted] and his superior from the [redacted] in [redacted]. Here the [redacted] offered their assistance in connection with the Emergency Plan but suggested that CIA be advised of the connection.

PARIS
DEUXIEM

Spanish
French
Swiss

6. The most recent contacts with the [redacted] and [redacted] occurred on 11 December 1948 when Colonel PHILIPS, CO 7821 Composite Group, Captain Eric WALDMAN, a 7821 Composite Group field representative with RUSTY, and Dr. SCHNEIDER, German head of RUSTY, conferred with the US Military Attache in [redacted] of a high official of the [redacted] Military Intelligence, the deputy to the [redacted] Military Intelligence, the head of the [redacted] Police and representatives of the [redacted] in [redacted]. The purpose of this conference was to discuss various aspects of the RUSTY Emergency Plan. At least part of these people were met separately and socially during this trip and a variety of subjects of at least general intelligence interest were discussed. The protestations on this meeting that were made by our [redacted] Station are thoroughly appreciated but it does not appear that this is a situation which can be dismissed with a simple statement that this is a clear-cut example of RUSTY transgressing in CIA ground. In the first place, the Army considered the contacting of representatives of Western European military forces for the purpose of discussing any aspect of military actions, including the movement

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72. (Continued)

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Switzerland

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and
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of an army intelligence organization, to be taken in the event of war their clearly defined prerogative. They can, with some logic, include their trip to [redacted] to hold such discussions with the [redacted] and [redacted] Military Intelligence in the general category of military planning for possible eventualities. On the other hand, the personal connections between Dr. SCHNEIDER and the [redacted] Police, as well as the connections with the [redacted], is a matter in which the CIA seems to be clearly defined. Had EUCOM acted appropriately in this instance, the Chief of Station, Karlsruhe, should have been advised by ODDI EUCOM of the visit through the existing liaison channels. The Chief of Station, [redacted], could then have been properly advised. Failure to so advise the Chief of Station, [redacted], of such matters obviously places him in a difficult position with the [redacted].

Swiss

Switzerland

7. It appears that this unsatisfactory situation in [redacted] and elsewhere stems primarily from organizational and personnel problems on the US side of the operation. The primary fault appears to be found in the fact that CIA has had no direct connection with the project.

8. The two commanding officers of the 7821 Composite Group who preceded Colonel PHILPS were totally inexperienced in intelligence work and certainly were not conversant with the responsibilities of CIA vis-a-vis liaison with foreign intelligence services. Also, the past tenuous connection between RUSTY and ODDI in the form of staff supervision on operational matters has been insufficient to give the 7821 Composite Group the direction to have avoided such complications as the recent Swiss visit. The best solution appears to be in an attempt by CIA to adequately brief Colonel PHILPS on such matters and then provide continuing liaison at his level.

9. Dr. SCHNEIDER gives impression of being well aware of the need for a close connection with CIA representations abroad and would probably welcome any move in this direction. Although he has probably furnished the suggestions on potential contacts to facilitate RUSTY activities in [redacted] and elsewhere, the US element appears to fully participate in and fully sponsor all liaison contacts.

Switzerland

Danish

Denmark

Danes

Denmark

10. RUSTY couriers from Baltic ports go to [redacted] via [redacted] shipping; the [redacted] ensure the RUSTY couriers safe movement through [redacted] in return for copies of their reports. In order to develop their Baltic operations, RUSTY has decided to accept this offer and note on disseminated reports that [redacted] has received the same report.

Denmark

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TO GERMANY ONLY

72. (Continued)

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11. A known operative of the ~~██████████~~ ^{Swedish} Intelligence Service has been in Germany during the past year and attempted to develop contact with RUSTY. Because they feel that the ~~██████████~~ IS is ^{swedish} closely connected with the ~~██████████~~ ^{British} this approach has not been developed.

12. RUSTY has relied entirely upon the Office of the Deputy Director of Intelligence, EUCOM for liaison outside of the occupied areas except in the instances cited above.

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72. (Continued)

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SECRET/RELEASE
TO GERMANY ONLY

PRESS ANALYSIS ACTIVITIES

1. The Press Section, a section of Evaluation (45), is located in an old castle ("Dustbin") located approximately 15 kms. north of Bad Nauheim. It was created in the Fall of 1947, but did not receive its real impetus towards fruitful production until the appointment in the Spring of 1948 of Mr. Merkur as head. Merkur is now assisted by a staff of six men, and in addition, a total of eight eastern language translators, living outside of Dustbin or employed in the Intelligence Collection Organization (7), are available upon need. There is a complete segregation from the local population who, because of the academic background of the staff of professional military, economic, political, and scientific analysts, believe that the Press Section is working for Military Government on political and scientific matters.

2. At present, the Press Section regularly uses approximately 100 newspapers from the following areas:

a. Iron Curtain Countries:

10 Soviet	6 Ukrainian
5 Yugoslav	18 Czech
28 Polish	11 Rumanian
7 Bulgarian	6 Baltic

b. Western Countries:

18 German, including 13 from the Soviet Zone
10 Austrian

c. Miscellaneous:

Services of 6 German press-clipping agencies

Occasional Arabian and Turkish newspapers, procured through Paris

The majority of the material used, particularly from the Iron Curtain countries, is provided by 7. Better and quicker coverage could be given were it possible to get the necessary newspapers and other periodical material through Military Attache channels.

3. The Press Section services include the following, primarily for the use of 45 and, to a lesser extent, for the use of 7:

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- a. Daily general summaries of the foreign and German press;
- b. Weekly military summaries;
- c. Condensed weekly (or ten-day) political and general summaries;
- d. Weekly economic summaries;
- e. Daily Soviet economic summaries;
- f. Monthly church, political, and press reviews for distribution throughout the organization;
- g. Individual press cuttings, not otherwise used, are distributed to interested sections in 7 and 45; and
- h. Press archives are maintained up to date.

4. Both 45 and 7 consider that the exact press analysis provided saves considerable funds in that it provides information otherwise obtainable only through operations. In this connection, the Press Section has found that press coverage of border areas is considerably more productive than press coverage of the USSR itself. The Section has also been found to be very useful in providing essential background material for proper evaluation of almost all reports, and in many cases, for the direction and evaluation of agents.

5. As examples of the above general remarks, 45 credits the Press Section with accurate reporting on 5 Divisions in Czechoslovakia together with detailed descriptions of military districts, as well as with reporting on the complete structure of youth and other governmental organizations in Poland, as well as providing confirmation of the majority of military information obtained by operations in this area; and with providing complete details of draft registration, unit designations, and personalia of officers in the Yugoslav high command. In addition, the economic section considers essential the daily indications received from the Press Section of production and movement of raw material, percentages of fulfillment or non-fulfillment of finished production quotas, etc. Numerous operational details are also extracted, and have proved to be of benefit to the operations of 7. From time to time, 45 uses the greater portion of this incoming material to make a press report compilation for the U.S. office.

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72. (Continued)

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6. At the moment, radio coverage is inadequate. Members of the Press Section attempt to listen to the morning, noon, and night newscasts, and 45's Russian translator attempts partial coverage of Soviet broadcasts. The problem, however, is one of personnel, since adequate coverage means 24-hour coverage by experienced analysts.

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72. (Continued)

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30 November 1948

Reflections on the Further Development of this Project

All reflections on the possible further development of this project must be based on the political foundation which supports it.

My assessment of the political situation is dominated by the following conceptions:

- (1) Ideologically, politically, economically, and militarily, the world is divided into two camps, which are engaged in a comprehensive intellectual, political, and economic struggle. The eastern camp incorporates the ideal of the absolute state, of collectivism, and irreligion and is based on a materialistic conception of mankind and the world. The western world clings to the conception of a democratic adjustment of the various political tendencies within the human community, it stands by individualism, which recognizes basic human rights, religious beliefs, predominantly Christian faith, but also those of other creeds. It furthermore embodies an idealistic conception of the true nature of man and the world. In the future, the vehemence of this struggle is certainly going to mount. It is hoped that war can be avoided, but that does not seem probable.
- (2) In this struggle, Germany is the no-man's land between East and West. By nature and tradition, the German belongs to the western camp. Since the German is not in a position to defend himself against the onrush of the eastern ideology without foreign help, the community of the western nations should be interested in Germany as an advance post in this world-wide struggle.
- (3) The epoch of national states, at least in its conventional sense, has been superseded by more comprehensive conceptions. A future Germany is only imaginable as an integrate part of a larger organism, which, in my opinion, is represented by the union of Western European states.
- (4) This union of Western European states, if it is to be a success and is to lead to a firm bloc capable of defending itself, will require the renunciation of a number of sovereign prerogatives in favor of a greater community. In the same way as the rehabilitation of Germany herself is only thinkable within the framework of a federated state, the future democratic Germany, if it is to have any permanence at all, is only imaginable as a component of a Western European union.

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- (5) This reintegration of Germany into the community of Western European states meets with numerous difficulties, partly because of her moral disqualification which goes back to the well-known events of the last decade, partly also because of the frequently divergent interests of the various European states themselves. From a long-range point of view, the US is, and must be, interested in a Germany which, as a member of the union of Western European states, is politically and economically strong enough to fulfill her mission as an outpost on the borderline, which divides East from West. By necessity, this situation makes the US, which is above the local conflicting interests of individual European states, a politically non-profitting friend of Germany.

The above considerations induced me, at the end of the war, to offer my cooperation and that of my co-workers as a contribution to the defense of western civilization against Communist-Soviet expansion. Our basic conception, which has been sanctioned by the American side, i.e., to contribute our share as a German organization in cooperation with and under the control of the competent American agencies, is based on the following two facts: First, we want ultimately to be in a position to justify this work with our own conscience; second, we do not want to be exposed to the reproach of having worked for foreign interests for material reasons only. On the other hand, seen from an American point of view, this conception alone offered the possibility of securing the best qualified Germans for cooperation in the interest of the US, a cooperation, which it would otherwise have been impossible to obtain.

Political ambitions and aims of any kind are far from both myself and the leading circles of this project. As a former German general, I pledged my word to General SIBERT that I would, at any time, assume full responsibility for this project vis-a-vis the US. Also in our quality as Germans, we are fully conscious of the fact that today more important things are at stake than our own country and that through our cooperation and our efforts, we have an opportunity of contributing to the atonement of those happenings which, in the eyes of the world gravely compromise our nation, although we, as individuals, may not be blamed for them. The seriousness of our intention is reflected in our work.

I would like to review the following ideas concerning the various possibilities of how to continue the activities of this project from the angle of the above voiced conceptions.

As to the present constellation, the new existing form of our organization has proved its practical and useful set-up. From a long-range point of view, it seems, however, advisable - both from the American and the German standpoint, to review the question of what status this project is to be given at the moment when Germany will again be established as a sovereign state with a government of its own. The eventuality of a Communist, eastern oriented Germany is not being considered in this connection, because in this case we would unanimously continue to fight such a Communist Germany, as we have done before. Therefore, only this situation will be considered, which sees Germany, or at least Western Germany, as part of the union of Western European nations.

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The following possibilities offer themselves:

- (1) If it should be desired on the side of the US, this project could be dissolved within a period of several months. I should pledge myself, loyally to take all the measures appropriate for such a step. However, I assume that such a solution will not be envisaged, since it is hardly probably that the existing tensions between East and West will considerably ease within the next ten years; rather we must fear that there will be a war. That all the members of this project, in such an eventuality, will fight or work on the side of the US, no matter in what form, need not be stressed here.
- (2) Conversion of this project into a purely American organization, which would continue its work on a purely American basis. This would necessitate a basic reorganization and the granting of American citizenship, respectively a claim thereto, to those key members of this project who are to be taken over, if they - on their side - should agree to such a solution. In this case, the efficiency of this project would presumably suffer due to the fact that not all the members of this project, particularly those working at lower levels, would be ready to continue on that basis.
- (3) Conversion of this project into a German, but American led and controlled Intelligence Service. Thus, it would be advisable to effect the organization of this service in such a way that a mixed German-American Intelligence Service is being established, which, under the cover of a German agency, would simultaneously work for American and German interests. In suggesting the possibility of such a solution, it is pre-supposed, in concordance with the basic conceptions of this project, that the activities of this Intelligence Service will remain to be directed against the East and its satellites and will be restricted to this sphere only. This solution would simultaneously create the possibility of establishing a close political tie between the US and the envisaged democratic Germany. The key personnel of this project have cooperated with the US for three years, and in doing so, they have become familiar with her mentality and her fundamental interests. It can be assumed that all of them would be ready to make the cause of the US their own, since in that way they were simultaneously serving Germany's true interests. They are bound to be in a position to act, in the most diversified fields, as mediators between the policies of the two nations and as promoters of a better understanding and appreciation of their mutual interests. Moreover, by taking this course, the US would secure herself a dominant position among the various Central European Intelligence Services, thus preventing a preponderance of the British IS in this field all over Europe.

It may be objected that in case of such a conversion of our project into a German IS, which at present is still a very distant possibility, also the other Western Allies, particularly Great Britain and France, would claim a share in its control. However, I am convinced that the US, in view of all

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her comprehensive political and economic efforts for the survival of all the European nations, has a moral right to claim for herself the sole control of such a German IS, also in behalf of the above mentioned states. This seems all the more justified with regard to the considerable sums of money which the US has spent on the development of this instrument. But even if the over-all operations of this IS would have to be placed under a joint control of all the Western Allies, a solution which is not deemed desirable, the American interests would continue to prevail with the German members of this project, for there is nothing that binds so closely as a prolonged period of common work and a series of common successes, based on the same ideals.

/s/ SCHNEIDER

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73. Galloway to DCI, "Recommendations in re Operation Rusty," 21 December 1948

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copy 2 of 3

SECRET/RELEASE
TO GERMANY ONLY
21 December 1948

MEMORANDUM FOR: The Director, Central Intelligence

SUBJECT: Recommendations in re Operation Rusty

DOCUMENT NO. _____
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS *③ c*
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: *1/19/81* REVIEWER: _____

1. As the result of a request to the Director, CIA, from the Director of Intelligence, EUCOM, Operation Rusty was briefly investigated by this organization in the period between 18 November and 15 December 1948. The purpose of this investigation was to determine in a preliminary way the character of Operation Rusty with a view to facilitating a decision as to whether or not CIA should accede to the Army's request that it "take over" this Operation.

2. This memorandum is predicated on the assumption that CIA is willing to assume the responsibility for Operation Rusty with the understanding that certain provisos shall be agreed to by the Army as prerequisites to this assumption of responsibility.

3. It is recommended that these provisos include the following:

(a) That the National Security Council be informed concerning Operation Rusty, its origin, and its development to date.

(b) That the National Security Council direct that CIA "take over" Operation Rusty as to financial support, operational and administrative direction, etc., but that simultaneously the National Security Council further direct that CIA be given the same logistical support in Germany which the Army, the Air Forces, and other American agencies have been accorded the Operation to date. This provision is to include support from the German economy as long as the United States is in the status of an occupying power.

(c) That CIA finance Operation Rusty on an annual budget not to exceed \$1,500,000.00.

(d) That it be clearly understood by all interested agencies that, although CIA will run Operation Rusty for the benefit of the U. S. occupation forces, it will have complete

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Destroy only with consent
of the Central Staff

73. (Continued)

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- 2 -
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authority and control to handle the Operation as it sees fit.

(e) That, if CIA is directed by the National Security Council to "take over" Operation Rusty, that it be given a period of a minimum of one year during which the current managements would continue on duty, but under control of CIA representatives assigned to the project.

4. In support of the above recommendations, it might be advisable to point up briefly the reasons for these provisions. As regards (a), the national and international political implications of a reconstructed German Intelligence Service with German General Staff ramifications are such that it would be most hazardous from a domestic political viewpoint for this organization to become involved without specific directive from the Executive. In addition, the security and basic orientation of Rusty is most dubious, since we know of at least two countries, ~~France~~ and ~~Switzerland~~ that have been approached by Rusty personnel with offers of direct liaison. As for (b), the Office of Special Operations is in no way set up to carry the personnel and administrative load involved in operating a unit of 4,000 Germans. Without the personnel and logistic support already contributed by other agencies, CIA would not be able to support Rusty. With regard to (c), it is felt advisable to put a ceiling on the number of dollars to be allocated to Rusty in a given year inasmuch as another currency reform in Germany or other factors might shoot the cost to a figure two or three times as high. It is felt that CIA deserves some budgetary protection against such a contingency. On point (d), little explanation is needed, except that CIA's position would be untenable over the long pull if it did not have complete control of the Operation. As regards (e), it is absolutely essential that CIA be given sufficient time to find out in precise terms and with Army assistance detailed characteristics of the organization for which it is assuming the responsibility. It is abundantly clear that we do not know very much about the inner-workings of the Rusty organization, and it is probable that the Army does not either. Without being able to run traces on the personnel and examine specific details of the operations with Army assistance and personnel, we might well lay CIA open to wholesale penetration by the Rusty organization. Further, we have no idea whether or not the Russians are feeding deception into the Rusty pipeline. If this were the case and Rusty, 4,000 strong, were placed immediately and solely on our doorstep, we, as an organization in Europe, would be in no position from a personnel standpoint to handle the operations alone securely and carefully with consequences which are obvious.

5. No attempt has been made in the foregoing to go into details regarding Operation Rusty. It is simply a brief statement of

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the conviction that unless CIA takes on this Operation under its own terms, it should not be taken on at all and should be regarded as a friendly though competitive intelligence service with all that that implies.

DONALD H. GALLOWAY
Assistant Director
Special Operations

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1028

74. Cable, SO to Munich, Karlsruhe, 22 December 1948

SECRET/RELEASE TO GERMANY ONLY
FORM NO. 35-0 JAN. 1948
ORIGINAL UNCLASSIFIED MESSAGE
CENTRAL INTELLIGENCE AGENCY
TOP SECRET Page No.

To: MUNICH, KARLSRUHE ROUTINE
FROM: SPECIAL OPERATIONS 22 DEC 48
CONFIRMATION: AD SO (1) [REDACTED] *OUT 73480*
INFORMATION: COPS (2), FDM (3)

Paraphrase Not Required. Handle as TOP SECRET Correspondence per Pars. 51 (1) 60A AR-380-5

WASH 6723
[REDACTED] *CRITICAL EYES ONLY*
TO: MUNI [REDACTED] INFO: KARL [REDACTED] *[] EYES ONLY*
CITE: WASHA

1. [REDACTED] AUTHORIZES YOU TO GIVE COPY OF YOUR WRITTEN REPORT ON RUSTY TO GENERAL HALL. WE ASSUME [REDACTED] IS CONDENSED VERSION OF FINISHED DOCUMENT. IN VERSION YOU GIVE TO HALL, ELIMINATE RECOMMENDATIONS COVERED IN PARAGRAPH FIFTEEN OF REFERENCE CABLE. PERSONALLY DELIVER REPORT TO HALL AND BE PREPARED TO ANSWER ANY ORAL QUESTIONS HE MAY HAVE, PARTICULARLY RE ANY DEFECTS OBSERVED BY YOU THAT WILL ENABLE HALL TO RECTIFY AT ONCE.

2. BASIS ON WHICH THIS ORGANIZATION WOULD ACCEPT RUSTY DISCUSSED WITH HALL THIS DATE BY [REDACTED] AND [REDACTED]. *Knights* FINAL DECISION WILL NOT BE MADE PENDING CERTAIN DISCUSSIONS WHICH HALL MUST HAVE WITH HIS PRINCIPALS HERE AND IN GERMANY. YOU WILL BE ADVISED WHEN DECISION BECOMES FINAL. MEANWHILE RETURN TO YOUR REGULAR DUTIES.

D. GALLOWAY

R. HELMS

RELEASING OFFICER

ORIGINATING AND COORDINATING OFFICERS

AUTHENTICATING OFFICER

TOD: 2305Z 22 DEC 48

TOP SECRET

COPY No. 3

IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

SECRET/RELEASE TO GERMANY ONLY

75. Chief, FBM to COS, Karlsruhe, "Operation Rusty," 24 December 1948

**SECRET/RELEASE
TO GERMANY ONLY
OFFICIAL DISPATCH**

[REDACTED] #3

MGKW-1136

VIA: AIR POUCH
SPECIFY AIR OR SEA POUCH

DISPATCH NO. [REDACTED]

~~TOP SECRET~~
CLASSIFICATION

TO: Chief of Station, Karlsruhe
FOR: [REDACTED]
FROM: Chief, Foreign Branch # [REDACTED]

DATE: 24 December 1948

EYES ONLY

SUBJECT: GENERAL - Operation Rusty
SPECIFIC -

Attached hereto is a copy of the memorandum which we prepared for [REDACTED] in preparation for the discussion with General Hall which took place on 22 December 1948. [REDACTED] presented orally the provisos outlined, and General Hall expressed himself as willing to go along with all of them. He noted, however, that it would be necessary for him to clear the action recommended in 3 (A) with both General Clay and General Irwin. When this has been done, steps will be taken to present the matter to the NSG.

The conversation with General Hall went off in a most amicable atmosphere. He stated that he was extremely interested in the future of Rusty and that he would personally see to it that sufficient logistical support were forthcoming to support it if and when we take it over.

Please file the attachment to this memorandum most securely inasmuch as it contains references to this organization and comments which we would not want to be seen by individuals other than yourself. We are forwarding the memorandum, because we felt it would be useful for you to see the basic philosophy which [REDACTED] presented to General Hall on this matter. This is not a completely official paper inasmuch as General Hall did not read it. It does, however, express our views.

Incidentally, General Hall was most complimentary about you and your colleagues in Berlin with whom he deals. He strikes us as a man who is going to emphasize teamwork without attempting to run your show. In fact, he made the specific comment that he had "no illusions about the command channel" as far as your relationship with Washington Headquarters is concerned. In other words, he knows you will work on the team but he is not going to attempt to direct your efforts.

No attach. for file.
Attachment (3 pages)

CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Cancelled
Changed to *Secret*
BY AUTHORITY: [REDACTED]
Name: [REDACTED] /1961
COORDINATING OFFICER: [REDACTED]
Date: [REDACTED]

AUTHENTICATING OFFICE
RICHARD HELMS

COPS

FORM NO. 51-29
APR 1947

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132

76. Chief, FBM to COS, Karlsruhe, "Operation Rusty," 28 December 1948, enclosing
DCI to Maj. Gen. William E. Hall, USAF, "Operation Rusty," 22 December 1948

**SECRET/RELEASE
TO GERMANY ONLY
OFFICIAL DISPATCH**

[REDACTED] #3

MGKW 1174

VIA: AIR POUCH
SPECIFY AIR OR SEA POUCH

DISPATCH NO. [REDACTED]

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CLASSIFICATION

TO : Chief of Station, Karlsruhe DATE: 28 December 1948
FOR: [REDACTED]
FROM : Chief of Foreign Branch M

SUBJECT: GENERAL -
SPECIFIC - Operation Rusty

- Eyes Only

REFERENCE: [REDACTED] MGKW 1136

As a follow-up to reference memorandum, we are forwarding
herewith, for your personal information only, a copy of a memo-
randum which the Director wrote to General Hall. This will bring
your file up to date.

TOP SECRET

Attachment (1 page) [REDACTED] CIA 27078 A

Richard Helms

CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Cancelled
Changed to Secret
BY AUTHORITY [REDACTED]
Name [REDACTED]
Office [REDACTED]
Date 12 MAR 1949

RELEASING OFFICER [REDACTED]

COORDINATING OFFICER [REDACTED]

AUTHENTICATING OFFICER [REDACTED]

RICHARD HELMS

~~TOP SECRET~~
CLASSIFICATION

FORM NO. 51-29
100 (10-47)

**SECRET/RELEASE
TO GERMANY ONLY**

(789)

76. (Continued)

CIA 27078A

~~TOP SECRET~~

Copy No. 6

~~TOP SECRET~~
CONFIDENTIAL
SECRET/RELEASE
TO GERMANY ONLY

22 December 1948

MEMORANDUM FOR: Major General William E. Hall, USAF

SUBJECT: Operation RUSTY

1. As a result of the discussions we had this afternoon, I am putting in writing the points agreed upon, in principle, between us concerning Operation RUSTY:

a. That the National Security Council be informed concerning Operation RUSTY.

b. That the National Security Council direct that the Central Intelligence Agency "take over" Operation RUSTY as to financial support, operational and administrative direction, etc., but that simultaneously the National Security Council further direct that the Central Intelligence Agency be given the same logistical support in Germany which the Army, the Air Force and other American agencies have been according the Operation to date.

c. That the Central Intelligence Agency finance Operation RUSTY on an annual budget not to exceed \$1,500,000.00, in principle.

d. That it is understood by all interested agencies that, although the Central Intelligence Agency will run Operation RUSTY for the benefit of all U. S. occupation forces, it will have complete authority and control to handle the Operation.

e. That the Central Intelligence Agency be given a minimum period during which the current managements would continue on duty, but under control of Central Intelligence Agency representatives assigned to the project.

2. I am forwarding a copy of this memorandum to Major General S. LeRoy Irwin.

DOCUMENT NO. _____
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S 2011
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: 12/23/48 REVIEWER: _____

Signed

R. H. HILLENKOETTER
Rear Admiral, USN
Director of Central Intelligence

Distribution:

- Cy #1 - Gen Hall } *Dispatched via I/O Courier 12/23/48*
- Cy #2 - Gen Irwin }
- Cy #3 & #4 - ADSO
- Cy #5 - Deputy Director
- Cy #6 - Director

CONFIDENTIAL

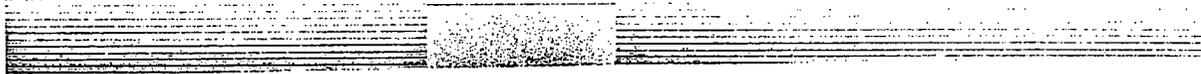
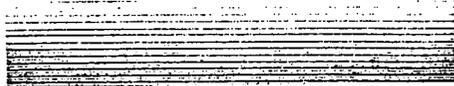
Two reports to Hall & Irwin file 1-28-49

SECRET/RELEASE ~~TOP SECRET~~
TO GERMANY ONLY

Part VI
A Year of Decisions

1.34/a

1346



77. Maj. Gen. S. LeRoy Irwin to DCI, "Operation 'RUSTY,'" 19 January 1949.

~~TOP SECRET~~

50 13884
[Redacted]

SECRET/RELEASE
TO GER: MANY ONLY
DEPARTMENT OF THE ARMY
GENERAL STAFF, UNITED STATES ARMY
WASHINGTON 25, D. C.

19 January 1949

MEMORANDUM FOR: THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: OPERATION "RUSTY"

Following is the basis of transfer of RUSTY to CIA:

- a. CIA to absorb RUSTY as an integral part of its operation, and to conduct it in accord with existing policies for CIA in the theater.
- b. EUCOM to continue to provide logistical support as is being done and to participate in administrative control to the extent necessary to accomplish this support.
- c. The basic intelligence objectives of the operation to remain unchanged, and D/A and EUCOM to be fully informed of all intelligence obtained.

[Handwritten Signature]

S. LeROY IRWIN
Major General, GSC
Director of Intelligence

Has this been considered and cleared?

CLASSIFICATION AGENCY
 BY AUTHORITY
 DATE 1 MAR 1988
 Secret
 [Redacted]

~~TOP SECRET~~

SECRET/RELEASE
TO GERMANY ONLY



78. Helms, Memorandum for the Files, "Operation Rusty," 1 February 1949

SECRET/RELEASE
TO GERMANY ONLY

COPS AND ADSC:

If this confirms your recollection of the main points covered at the meeting this morning, would you please be good enough to initial this memorandum so that it can be made a part of the Rusty file.


R. H.

On page 1, next to last sentence
"In this connection etc."
I interpret the clause "only
after CIA was administratively
set up to handle it" as
"only after CIA is provided the
administrative facilities necessary
to support it" 

SECRET/RELEASE
TO GERMANY ONLY

78. (Continued)

~~TOP~~ SECRET

SECRET/RELEASE
TO GERMANY ONLY

1 February 1949

MEMORANDUM FOR THE FILES

SUBJECT: Operation Rusty

This morning a meeting was held in General Wright's office attended by the General, Captain McCracken, [REDACTED], and the undersigned. The meeting was called so that General Wright could relay to OSO the developments in the Rusty case since the meeting with General Hall in Admiral Hillenkoetter's office the week prior to Christmas.

There follows a synopsis of General Wright's remarks at this meeting: The Department of the Army had been most reluctant to refer Rusty to the National Security Council as requested by Admiral Hillenkoetter. After a conversation with General Bradley, during which the General expressed himself conclusively that Rusty should be turned over to CIA, General Irwin discussed the matter further with Admiral Hillenkoetter and it was agreed that the Admiral would take the question up personally with each member of the National Security Council rather than having it brought before a regularly convened meeting of the Council. This Admiral Hillenkoetter has done although as of this date he has not had an opportunity to discuss the problem with Secretary Acheson. In addition, General Bradley discussed the Rusty question with Secretary Forrestal, at which time the latter took the same position that Rusty should be handled by CIA. On the same day that General Bradley and Mr. Forrestal were discussing this matter, the Department of the Army received a cable from General Clay in which the General stated flatly that he would not have any other agency running an operation such as Rusty in his Theater. When this was reported to General Bradley by General Irwin, General Bradley took the position that he still wanted Rusty turned over to CIA and that he would write a personal letter to General Clay to that effect. Under the circumstances, it was felt that within the predictable future Rusty would be turned over to CIA. (In this connection, it should be noted that General Wright requested that General Bradley add a sentence to his letter to General Clay stating that CIA would take over operational control of Rusty only after CIA was administratively set up to handle it.) In the course of these negotiations it developed that General Hall, who was originally firmly in favor of having CIA assume control of Rusty, changed his view radically after he had discussed the matter with General

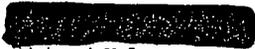
SECRET/RELEASE
TO GERMANY ONLY ~~TOP~~ SECRET

78. (Continued)

~~TOP SECRET~~
SECRET/RELEASE
TO GERMANY ONLY₂

Clay upon his (Hall's) return to Germany in January.

The remainder of the meeting was turned over to a discussion of various aspects of Rusty and what the takeover would mean. General Wright concluded by saying that in his opinion there was no question but that CIA would get Rusty and that OSO planning on that topic should go forward with that aim in mind. Throughout the discussion, General Wright emphasized that both he and the Admiral on all occasions had pointed out to the Department of the Army and other officials that CIA was not asking to take over Rusty and was expressing a willingness to do so only because the Army was requesting it.


Richard Helms


CCRS

ADSC

SECRET/RELEASE
TO GERMANY ONLY

~~TOP SECRET~~

78. (Continued)

SECRET/RELEASE
TO GERMANY ONLY

In this connection the ^{draft of a} G-2 letter to be sent by Gen Bradley to Gen Clay was submitted to the Director and was considered by both the Director and General Wright. It was requested that a sentence be added to the proposed letter which was stated generally as follows:

"CIA will assume operational control of "RVSTY" only after that Agency has activated the administrative needs to incorporate "RVSTY" into the CIA world-wide organization."

Witnessed by Gen. [Signature]
[Signature]

SECRET/RELEASE
TO GERMANY ONLY

79. Chief, FBM to COS, Karlsruhe, "[Gehlen Organization]," 2 February 1949

SECRET/RELEASE
TO GERMANY ONLY
OFFICIAL DISPATCH

[REDACTED]

#3

M&KW 1316

VIA: AIR POUCH
SPECIFY AIR OR SEA POUCH

DISPATCH NO. [REDACTED]

TOP SECRET
CLASSIFICATION

TO: Chief of Station, Karlsruhe
FOR: [REDACTED]
FROM: Chief, Foreign Branch M

DATE: 2 February 1949

Eyes Only

SUBJECT: GENERAL: Operational
SPECIFIC: [REDACTED] ODEUM

This is a follow-up to the cable we sent you today on the above subject ([REDACTED]). WASH 8511

Paragraphs 1, 2-A, 2-B, 2-C, and 2-D are self-explanatory. As regards paragraph 2-E, we want to be sure that our intention is clear, namely that the takeover on [REDACTED] shall not adversely affect the operations of [REDACTED]. It would make no sense at all for us to scrap the labors of the last three and a half years just because we assume control of what is at best a controversial intelligence package. In this connection, we have not yet made any adjustments to take care of the vacancies on your staff made by those individuals who go over to [REDACTED]. We felt it would be more sensible to wait until the takeover actually becomes official. At that time, we can at least set up a T/O for [REDACTED] and his staff so that the slots in [REDACTED] will be vacated. Incidentally, we will count on you to inform us regularly on additional personnel requirements which [REDACTED] may make upon us as developments occur. It seems advisable to start out with four staff officers, because the initial period will have to be one of intense exploration to find out what factually [REDACTED] really is in all its manifestations.

ODEUM

ESD-11

ODEUM

Critchfield

ESD-11

ODEUM

ODEUM

ODEUM

With reference to paragraph 2-G, it seems clear that the only way for us to approach [REDACTED] is to have our staff people investigate it thoroughly from the top down. At this juncture, it would make no sense to attempt to decide at what specific points in the operation staff officers should be placed, because our knowledge of what goes on is not sufficiently detailed in order to make this possible. Further, our commitment to keep the Army and Air Forces furnished with tactical information as heretofore seems plainly that we will have to keep the operation at its present strength until we are absolutely sure of our ground in connection with any slicing we may feel it desirable to do. It is our thought currently that as the investigation progresses and as [REDACTED] gets to the point where he will want to make specific recommendations about the future of parts of [REDACTED] it will be

Critchfield

ODEUM

[REDACTED] [REDACTED] [REDACTED]
RELEASING OFFICER COORDINATING OFFICER AUTHENTICATING OFFICER

ADSO

RICHARD HEINE

[REDACTED]

[REDACTED]

TOP SECRET
CLASSIFICATION

FORM NO. 51-21
400 14-27

(700)

SECRET/RELEASE
TO GERMANY ONLY

79. (Continued)

~~TOP SECRET~~
SECRET/RELEASE
TO GERMANY ONLY

- 2 -

essential for you to appoint a unit in your own shop, headed by yourself, to pass on these recommendations, pro and con, so that they may be forwarded to Washington with your considered opinion appended thereto. This is one means of assuring that you are kept completely conversant with what the operation is doing. It also has the merit that it gives you a veto power if you feel that the [redacted] chieftains are running away with the ball game. We all agree that it is going to be extremely difficult for [redacted] and his staff to maintain a dispassionate view of this operation working as they will be on a day-to-day basis with its members. Many of these men are clearly intelligent, purposeful, and strong willed. They are going to be a monumental handful regardless of how things develop. Consequently, [redacted] and his group have in a sense got to be backed up, given necessary authority, but not permitted to be put in the position of being run by [redacted] rather than vice versa.

ODEUM

Critchfield

Critchfield

ODEUM

This operation should be a great intelligence producer. On the other hand, it will be a most delicate mechanism to administer. We are currently giving considerable thought to such ramifications as the reaction of various allied intelligence services when the word inevitably gets around that this Agency has taken over [redacted]. The longer this can be delayed, the better, but we feel it is fanciful to assume that some German will not give the game away sooner or later. The most ticklish thing of all, obviously, is the threat of further publicity concerning the operation. [redacted] when he was here, said that David Dallin, the writer, had learned a considerable amount about [redacted] while in Munich. He apparently decided not to do much with the material after talking with General Clay. In any event, all we can do is keep our own lips buttoned, keep the operation away from [redacted] and other stations, and in every possible way go as circumspectly as possible.

ODEUM

ODEUM

ESD-II

ODEUM

For the time being, [redacted] and the undersigned will attempt to handle [redacted] details on this end. This will leave [redacted] and [redacted] free to devote their full attention to the problems of [redacted]. Naturally, everything will be coordinated here, but it is recognized that it would be a grave mistake if we permitted the problems of one operation to sink those of the other. After all, there is no substitute for one's own operations carefully constructed and controlled by American hands.

[redacted] and [redacted]
ESD-II

Critchfield

Some ideas we have concerning the findings in [redacted] investigative report will be pouched in a few days.



Richard Helms

~~TOP SECRET~~
SECRET/RELEASE
TO GERMANY ONLY



80. Cable, SO to Karlsruhe, 8 February 1949

FORM NO. 35-6
DEC 1947

**SECRET/RELEASE
TO GERMANY ONLY**

CENTRAL INTELLIGENCE AGENCY

SECRET 1949 FEB 9 13 56 PAGE No.

To:	KARLSRUHE	PRIORITY
From:	SPECIAL OPERATIONS	8 FEB 49
Confirmation:	ADSO (1-2)	[REDACTED] OUT 75923
Information:	COPS (3)	

Paraphrase Not Required. Handle as SECRET Correspondence per Pars. 51 (1) 60A AR-380-5

[REDACTED] WASH 8817
 [REDACTED] EYES ONLY LC
 TO: KARL [REDACTED] CITE: WASHA

1. PLEASE PASS FOLLOWING TO COLONEL SCHOW URGENTLY FROM [REDACTED]

A. GENERAL CLAY RECEIVED EYES ONLY CABLE FROM GENERAL BRADLEY TODAY DIRECTING [REDACTED] OPERATION BE TAKEN OVER BY CIA ON FOLLOWING BASIS: *ODEUM*

1. CIA TO ASSUME FULL OPERATIONAL CONTROL OF [REDACTED] AT SUCH TIME AS THE NECESSARY ADMINISTRATIVE ARRANGEMENTS ARE COMPLETED TO FIT THE OPERATION INTO CIA'S WORLD-WIDE SYSTEM. *ODEUM*

2. EUCOM TO CONTINUE ADMINISTRATIVE AND LOGISTICAL SUPPORT OF OPERATION AS REQUIRED BY CIA. *ODEUM*

3. [REDACTED] PRODUCT CONTINUE TO FILL REQUIREMENTS OF EUCOM.

B. UNDERSTOOD HERE THAT GENERAL CLAY AND POSSIBLY GENERAL [REDACTED] SHALL NOT IN FAVOR OF RELEASING [REDACTED] TO CIA. SUGGEST YOU TALK TO CLAY PRIOR YOUR DEPARTURE WITH VIEW TO: *ODEUM*

1. DETERMINE HIS REASONS FOR NOT LOOKING FAVORABLY ON THE CHANGE.

2. ASSURE HIM OF OUR CONTINUED SUPPORT HIS REQUIREMENTS AND FULL COMPLIANCE HIS POLICIES.

II. WHEN DISCUSSING FOREGOING WITH COLONEL SCHOW, DRAW TO HIS

RELEASING OFFICER

ORIGINATING AND COORDINATING OFFICERS

AUTHENTICATING OFFICER

TOD:

SECRET

Copy No. 3

IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

**SECRET/RELEASE
TO GERMANY ONLY**

Secret
Rel GER

80. (Continued)

SECRET/RELEASE.
TO GERMANY ONLY

Wash 8817

SECRET

PAGE 2

OUT 75923

KARL 3463 (IN 23210)

ATTENTION CONTENTS OF [REDACTED] [REDACTED] EMPHASIZE PARTICULARLY
THAT REDUCTION OF U.S. STAFF AS OUTLINED IN YOUR PARA 2A CON-
STITUTES SERIOUS PERSONNEL PROBLEM FOR US AT TIME WHEN WE HAD
UNDERSTOOD THERE WOULD BE NO CHANGES IN CALIBER OR STRENGTH
OF OFFICERS ATTACHED TO [REDACTED] OPERATION.

ODEUM

A.R. MCGRACKEN
E.K. WRIGHT

RH

SECRET/RELEASE
TO GERMANY ONLY

TOR: 0104Z 9 FEB 49

SECRET

Secret

81. Cable, SO to Karlsruhe, 9 February 1949

SECRET/RELEASE
TO GERMANY ONLY
OUTSIDING CLASSIFIED MESSAGE

FORM NO. 35-6
DEC 1947

CENTRAL INTELLIGENCE AGENCY

SECRET 1949 FEB 10 14 4 PAGE No.

To: KARLSRUHE PRIORITY
FROM: SPECIAL OPERATIONS 9 FEB 49
CONFIRMATION: ADSO (1-2) [REDACTED] OUT 75997
INFORMATION: COPS (3)

Paraphrase Not Required. Handle as SECRET Correspondence per Pars. 51 (1) 60A AR-380-5

[REDACTED] WASH 8885
[REDACTED] EYES ONLY
TO: KARL [REDACTED] CITE: WASHA
FURTHER TO [REDACTED] WASH 8817 OUT 75929

1. COLONEL ENNIS HAS MISSION OF DISCUSSING WITH GENERAL CLAY ON BEHALF OF GENERAL BRADLEY QUESTION OF OUR TAKEOVER ON [REDACTED] ODEUM ENNIS WILL ATTEMPT PERSUADE CLAY THIS SENSIBLE MOVE. IN ANY EVENT, IT APPEARS GENERAL BRADLEY INSISTENT. ENNIS' TRIP COMES AS RESULT CLAY'S ANSWER TO BRADLEY'S CABLE MENTIONED [REDACTED] WASH 8817

[Knight] and []
Department of Army Detachment
2. YESTERDAY ENNIS WAS BRIEFED IN GENERAL TERMS BY [REDACTED] AND [REDACTED] RE THIS ORGANIZATION'S POSITION ON [REDACTED] AND HOW WE INTENDED TO TAKE IT OVER. ENNIS WAS ASSURED THAT [REDACTED] WOULD HANDLE ENTIRE MATTER AND THAT THERE WAS NO REASON FOR CLAY TO BE CONCERNED THAT [REDACTED] WAS BEING MOVED FROM [REDACTED] UNDER HIS COMMAND. IT EXPLAINED TO ENNIS IN DETAIL HOW WE OPERATED IN GERMANY. PARTS OF [REDACTED] WERE BROUGHT TO HIS ATTENTION. HOWEVER, HE COULD ONLY TAKE FEW HANDWRITTEN NOTES. THEREFORE, [REDACTED] SUGGESTED TO HIM THAT HE SEE COLONEL SCHOW IN FRANKFURT AND GO OVER MATTER WITH HIM. CONSEQUENTLY, YOU SHOULD MAKE SURE SCHOW UNDERSTANDS ENTIRE PROBLEM FROM OUR SIDE, IN OTHER WORDS PHILOSOPHY AND GENERAL POSITION AS OUTLINED IN OUR CABLES AND MEMORANDA, THIS ESSENTIAL NOT ONLY FROM STANDPOINT SCHOW'S PRESENT POSITION BUT ALSO FROM THAT OF HIS NEW JOB IN THIS ORGANIZATION. ODEUM
KARL 3463 (IN 23210)

A.R. MCCracken

R. HELMS

RELEASING OFFICER

ORIGINATING AND COORDINATING OFFICERS

AUTHENTICATING OFFICER

TOD: 2117Z 9 FEB 49

SECRET

COPY No. 3

IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

SECRET/RELEASE
TO GERMANY ONLY

146

82. Chief, FBM to COS, Karlsruhe, "[Gehlen Organization]," 9 February 1949

SECRET/RELEASE
TO GERMANY ONLY
OFFICIAL DISPATCH

MGKW-1388

VIA: AIR
SPECIFY AIR OR SEA POUCH

DISPATCH NO. [REDACTED]

~~SECRET~~
CLASSIFICATION CONTROL

TO : Chief, Karlsruhe Station

DATE: 9 February 1949

FROM : Chief, Foreign Branch M

Attas: [REDACTED]

SUBJECT: GENERAL -
SPECIFIC -

ODEUM

CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Cancelled
Changed to Secret
BY AUTHORITY [REDACTED] 15 MAR 1949

REFERENCE:
WASH 8511 MGMA 878

1. After careful perusal of your Report of Investigation it has been our realization that the successful management of [REDACTED] will depend largely upon the direction and influence exerted by your staff and this headquarters. At this time we are able to furnish suggestions and recommendations to cover the take-over period only. No comprehensive general policy directive can be issued until such time as the complexities of this operation have been clarified. Needless to say the initial phase will involve a detailed review of all operations, expenditures, administrative problems, etc.

ODEUM

2. The following are our recommendations:

- a. Present area priorities be retained until the results of entire coverage have been observed during a three month period at least.
- b. Target priorities continue as at present, i.e. 50% tactical; 20-30% strategic; remainder political and economic.
- c. Total monthly amount of money available for operations to be decided after determination of fixed monthly expenditures, e.g. total cost of all fixed salaries; average monthly cost of administrative expenditures, maintenance of installations, vehicles, etc. We presume that the 287 individuals who make up the staff of the central organization and communications section are paid on a salary basis.
- d. In accordance with German aims, emphasize trimming the size of the operations in the Soviet Zone while attempting to raise the level of penetration.
- e. For your suggestion all strategic operations now in developmental stage be examined on a project basis soonest.

GH:if

[REDACTED]

R. HELMS
AUTHENTICATING OFFICER

~~SECRET~~
SECRET/RELEASE
TO GERMANY ONLY

FORM NO. 51-29
APR 1947

(700)

82. (Continued)

SECRET/RELEASE
TO GERMANY ONLY

- 2 -

f. Attempt establish adequate communications with agents already placed for strategic intelligence.

g. Information on Rumanian and Hungarian operations be submitted to the Austrian mission for examination, but not without prior Washington clearance inasmuch as [redacted] relations with other missions of this organization have not yet been worked out. *ODEUM*

h. Specific progress of BRABUER in the strategic field be spelled out, and detailed project plans submitted.

i. CI operations be limited to those permitted under the present EUCOM directive, viz., to protect the security of operations.

j. Promote closer liaison with CIC in order to turn over Amson leads if not within interests of this organization.

k. Careful review CI operations extending beyond scope permitted, e.g. SNB Thuringia, CSS, Soviet Mission Ansbach, etc.

l. Consider possibility turning over operations of Berlin subsection to BOB.

m. Appropriate CI section supply study on RIS as presently known, for purposes of evaluation.

n. Army to render immediate decision on payment of QM items.

3. We are mindful of the numerous other factors to be considered in this operation but are withholding comment until we are certain of where we tread. The communications complex is one such factor.

4. Reports procedures have been the subject of a separate memorandum. On such items as finances, agent control, personnel, administrative procedures, etc., we shall wait until you have had ample time to study the requirements, and submit on the spot recommendations.

[redacted] D.G. Huefner

SECRET/RELEASE
TO GERMANY ONLY

83. Chief, FBM to COS, Karlsruhe, [untitled], 10 February 1949, enclosing Alan R. McCracken, ADSO, to Irwin, "Operation Rusty," 9 February 1949

**SECRET/RELEASE
TO GERMANY ONLY
OFFICIAL DISPATCH**

T3
[Redacted]

MGKW-1361

VIA: AIR POUCH
SPECIFY AIR OR SEA POUCH

DISPATCH NO. [Redacted]

~~TOP SECRET~~
CLASSIFICATION

TO: Chief of Station, Karlsruhe DATE: 10 February 1949
FOR: [Redacted]
FROM: Chief, Foreign Branch II

Eyes Only

SUBJECT: GENERAL - Operational
SPECIFIC:

Attached hereto is a document for your files. This is in an effort to keep you informed in general terms on some of the steps taken here in connection with subject Operation. The attached memorandum was delivered on 9 February 1949.

COPY

Attachment - [Redacted]

CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
~~Cancelled~~
Changed to *Secret*
BY AUTHORITY
Name [Redacted]
Office [Redacted]
Date 15 MAR 1961

No attach. for files

[Redacted]
RELEASING OFFICER: [Redacted] COPS
COORDINATING OFFICER: [Redacted]
AUTHENTICATING OFFICER: [Redacted] RICHARD HELMS
[Redacted]

~~TOP SECRET~~
CLASSIFICATION

**SECRET/RELEASE
TO GERMANY ONLY**

FORM NO. 31-29
400 (10-27)

(789)

83. (Continued)

~~TOP SECRET~~ SECRET/RELEASE
TO GERMANY ONLY

FEB 9 1949

MEMORANDUM FOR: MAJOR GENERAL S. LEROY IRWIN
DIRECTOR OF INTELLIGENCE, DEPARTMENT OF THE ARMY

CLASSIFICATION	SECRET
Changed to	
BY AUTHORITY	
DATE	15 MAR 1961

SUBJECT: Operation Rusty

In view of the current negotiations with respect to Operation Rusty, we felt that you would be interested in certain comments received yesterday from our representative in Germany. Since we must rely on your assistance for EUCOM administrative and logistical support if we take over control of the Operation, it is believed pertinent that you should have the following text in the hope that you may be able to take steps to ameliorate the personnel situation described.

"During the past six weeks a general deterioration in the relationship between the American and German elements of Rusty culminated on 3 February 1949 with General von Gehlen, German Chief of Rusty, informing Colonel Philp in writing that the vacillating support of the United States element leaves him no alternative but to recommend the dissolution of the Rusty operation. In summary, General von Gehlen made the following points: He cited the unsatisfactory calibre of the American personnel assigned to Rusty, noting that the only three exceptions to this (Major Walker, Captain Waldman, and Lieutenant Richardson) were scheduled for imminent departure from the theater. He also pointed out that what he believes to be 'the absolutely wrong attitude' of all the United States personnel, which can be attributed to inexperience, has caused disunity and distrust on both sides. Von Gehlen also deplored the lack of firm financial commitment sufficiently in advance to permit planning. He stressed that he was not requesting more money but a clear-cut allocation well in advance in order to permit him to plan such contingencies as the recent 40 per cent depreciation of the dollar on the local market. He says that although he forecast this devaluation and desired to reduce the operations in advance, he was told not to cut on the grounds that the funds would be increased. Von Gehlen reaffirmed his ideological convictions but stated that he personally was unwilling to risk his reputation by trying to run a large intelligence organization without fundamental backing.

AOSU ✓

~~TOP SECRET~~ SECRET/RELEASE
TO GERMANY ONLY

83. (Continued)

~~TOP SECRET~~

SECRET/RELEASE
- 2 - TO GERMANY ONLY

"This approaching crisis at Rusty headquarters has become increasingly obvious during the past three weeks. The order for the premature return of Captain Eric Waldman to the United States with no provision for replacement or opportunity for him to turn over his operational contacts proved to be merely the final incident which crystallized von Gehlen's growing conviction that the United States Army was not sufficiently interested in running a large intelligence organization under present conditions to give it essential support. When von Gehlen was informed by Colonel Philp of General Clay's unwillingness to have the Army release control of Rusty, he said he saw no hope in such a future and felt that dissolution was the only answer. He also expressed some apprehension that the Army, not appreciating the complex problems involved, might withdraw financial support simultaneously with the termination of the productiveness of the project.

"We here are much concerned about the personnel picture in the American element of Rusty. At the moment, it looks decidedly gloomy. Some of the officers seems to have compromised themselves with the German element, others are making an honest effort but have no experience or command of the language. The three representatives who seem to have done a good job by all testimony are to return to the United States within the predictable future. In view of this, our entry into Rusty now would necessitate a commitment in personnel which we are not in a position to meet immediately, unless the Army counters von Gehlen's charges by quickly reenergizing the United States element with competent officers."

FOR THE DIRECTOR OF CENTRAL INTELLIGENCE:

AS
ALAN R. McCRACKEN
Acting Assistant Director
Special Operations

Copy #1 to Gen. Linn
#2 to Gen. Collins (Dep.)
#3 to AOSO
#4 att'd to PGM (12/2/49)
on hand
19 Feb 490

~~TOP SECRET~~

SECRET/RELEASE
TO GERMANY ONLY

152

84. [Critchfield] to Chief, FBM, "Letter to General Hall," with enclosures, 10 February 1949

OFFICIAL DISPATCH
SECRET/RELEASE

23/2

MGMA - 961

VIA: AIR TO GERMANY ONLY DISPATCH NO. [REDACTED]

SPECIFY AIR OR SEA POUCH

EYES ONLY

SECRET
CLASSIFICATION

DESENSITIZED

TO : Chief, FBM DATE: 10 February 1949
FROM : Chief of Station, Berlin
SUBJECT: GENERAL - Operational
SPECIFIC - Letter to General Hall Critchfield

1. On 7 February 1949 Dr. Schneider handed the two copies of the attached letter to [REDACTED] Schneider indicated that he hoped one of the copies would reach Colonel Bromley; this is a carry over from the early days of the Rusty investigation. I did not feel it was necessary to inform Schneider that it would be quite impossible for me to be the vehicle by which an unofficial copy of a letter to General Hall from him found its way into the hands of the Intelligence Division in Washington. The original, in several copies, was handed to Col. Philp to be delivered to General Hall.

2. That Dr. Schneider has taken an irrevocable step is clearly apparent in reading the text of the inclosed letter addressed to Gen. Hall. I feel that comment is unnecessary. The letter, with its inclosures, does furnish considerable background and insight into the complexity of the entire problem.

3. Philp is currently ill (whether it is the flu or his assignment is debatable) and has thus far been unable to deliver the letter to Colonel Schow for transmission to General Hall.

4. I stopped in on Philp a few days ago while he was ill; during the course of our conversation an opportunity presented itself to cite the undesirability of throwing around loose references to our organization, its personalities and its activities. I am hopeful that the idea took root; he assured me that he had been thinking about launching a campaign to improve the appreciation of his staff for such matters.

5. A photostatic copy of this letter has been added to the Rusty file in Munich.

Distribution:
2 - FBM w/2 Incls.
11 - COS - -
1 - File w/1 Incl.

SECRET
CLASSIFICATION

[REDACTED]

JAMES
Critchfield

Engr. Repro. Plant - 20 - Oct 47 - 286

As this has come into our hands completely unofficially, we should be used in discussion with the Dept of [unclear]

SECRET/RELEASE
TO GERMANY ONLY

84. (Continued)

MGMA-961

att'd to [redacted]

EYES ONLY

SECRET/RELEASE
TO GERMANY ONLY

5 February 1949

Dear General Hall,

I am very sorry that our present situation, which is the result of a long-time development, forces me to ask for your immediate help.

After long considerations, I presented a letter to Col. PHILIP on 3 February 1949 (Inclosure 1), requesting immediate action concerning two fundamental requirements which are absolutely necessary for the continuation of our work.

I came to the conclusion that it is absolutely impossible to continue my work under the present circumstances. Therefore, I request that either immediate steps are taken by Intelligence Division, EUCOM, to give our operation the necessary support. Otherwise, I shall resign from my position and dissolve the entire organization.

I am quite sure that you will realize that I did not arrive easily at this conclusion, which would bring an end to an important project which is of great consequence for the US Intelligence as well as for our common interest in fighting the Communist danger from the East. However, if any operation like ours does not obtain the absolute minimum of essential support, it cannot be expected from me to continue my work.

In the following, I wish to give you more detailed information concerning the lack of support our operation receives from the American side.

I do not believe that it is necessary to go into details about our basic conception, which prompted me to build up in mutual interest an organization, which is working with the United States against the Soviet Union. It was possible for me to build up this organization with extremely small means allotted to us and to gather around me the best experts Germany has in the field only because I could stress to my co-workers that we are not working for another country, but that we are working with the United States against our common enemy.

SECRET/RELEASE
TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE TO GERMANY ONLY

For your complete information, I attach a short history of our operation (Inclosure 2). From it you will see that in a relatively short period of time, I was able to organize our project in such a manner that we are able to produce a considerable part of the US Intelligence in Europe.

This we did in spite of the fact that the support received from the American side was extremely limited. I realize that American Military Intelligence is relatively young, and I had hope that in the course of time our support would increase and, thereby, guarantee the effectiveness and efficiency of our organization. This development, however, did not take place. In the contrary, our difficulties and lack of understanding by Intelligence Division, EUCOM, increased to such an extent that I decided to resign from my position, if not an immediate change will take place.

In the beginning, Lt. Col. DEANE was in charge of this project, and the only officer assigned to him was Capt. WALDMAN. It was only possible to build up this organization because these two officers worked day and night and a complete confidence on both sides prevailed. There was never any question in anybody's mind that these two officers did everything possible to assist the operation and, vice versa, I believe that these two officers never doubted for one moment the sincerity, honesty, and good intentions of my organization.

As soon as Col. LIEBEL replaced Col. DEANE, the situation changed considerably. Col. LIEBEL, who lacked any operational experiences, hindered the development of our operation by his actions and, even worse, misrepresented our intentions and activities to higher headquarters. Within a few months, I realized that it would be impossible to work with Col. LIEBEL. Through Major ALLEN and Major STRONG, both of Operations Branch, EUCOM, I informed Intelligence Division that a change of the Commanding Officer is absolutely necessary. No steps were taken by Intelligence Division, EUCOM. I finally wrote a letter to General WALSH on 9 June 1948 (Inclosure 3). No immediate action was taken. I considered already at this time to resign from my position, when suddenly in September, due to a criminal case (Lt. KESTLINGER), finally Col. LIEBEL was transferred.

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SECRET/RELEASE TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE TO GERMANY ONLY

Certain problems within our organization were immediately solved after the departure of Col. LIEBEL, however, I never will understand why it was possible to keep an officer in charge of this operation for so long, who did everything possible to ruin our operation. I never will understand why Intelligence Division, EUCOM, took no action for so many months, in spite of the fact that I clearly stated to them the difficulties we encountered through Col. LIEBEL.

I wish to continue to speak about the personnel problem. It is very obvious that this operation needed more experienced US Intelligence officers. However, with the exception of the new Commanding Officer, Col. PHILP, whom we know for several years, and Major WALKER, Capt. WALDMAN, Capt. RICHARDSON, and Capt. REDDIN, no Intelligence personnel with experience in agent operations or special background was assigned to this operation. We received a number of officers who are absolutely unfit to work with an Intelligence operation of our kind. They do not possess any Intelligence experience, have no knowledge of the native language or of German mentality, and also partly do not have the right attitude toward the organization. Not only that they are not able to give the necessary support to the operation because of lack of knowledge, they are partly also hurting the operation by starting mutual distrust and lack of confidence.

As you already know, we are just about to lose two of operational experienced officers, and I also will never understand why, for instance, Capt. WALDMAN was transferred without first sending a replacement who could have been briefed and oriented by him prior to his departure. I cannot believe that Intelligence Division, EUCOM, was not able to do that. It proves to me the complete lack of understanding of our requirements, particularly in the personnel policy, and at the same time, I can assure you that at the present situation, we are not capable to work without experienced American Intelligence officers. Therefore, I am requesting a definite change in the US personnel policy as far as our project is concerned.

Anybody who is experienced in our operational Intelligence work knows that planning is a very essential part of the operation. Planning is based on the requirements

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84. (Continued)

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and also on the funds given to the operation. It was absolutely impossible for me to obtain from the American side a definite statement concerning the funds allotted to this operation in time, i.e., 3 - 6 months ahead. Repeatedly, I pointed out in memorandums and discussions that the operation cannot continue on its present scale, if the funds were not increased. I also clearly stated that, if the funds are not increased and we have to continue to work with the amount we receive at present, we can do so, but would have to reduce the overall organization. However, I was told again and again not to cut down the operation because additional funds would be made available.

All this brought me into great difficulties with the organization, and due to the fact that finally on 3 February I was told that we cannot figure with additional funds, I asked Col. PHILP for his agreement to a great reduction of the field organization.

The lack of support from the American side in many other fields I can also explain only by the fact that our requirements for work are not understood. Inclosed is a list of examples to illustrate to you why it is impossible for us to continue our work without making a radical change in the policy of US support for this organization (Inclosure 4).

As far as I am concerned, I am convinced that a direction and control of this organization by Intelligence Division, EUCOM, is absolutely impossible. With the exception of a very small number of officers from the Intelligence Division, EUCOM, I am convinced that the majority of the officers also at that headquarters have no operational Intelligence background and, therefore, are in no position to take decisions concerning the activities of our operation. Therefore, I propose that an immediate change be made in the subordination of this organization. I propose that this organization be placed directly under a headquarters dealing with our kind of undercover operations. A solution should be found, which assures the fulfillment of the requirements of EUCOM. In case you are of the opinion that such a change is impossible, I would appreciate if you would inform me, because then I am forced to execute the dissolution of our organization according to the proposals forwarded.

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SECRET/RELEASE TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE
TO GERMANY ONLY

I am very sorry that the development took such a turn, but I am also convinced that I cannot take the responsibility for the future work to be continued under the prevailing conditions. It is impossible to concentrate on the planning and execution of our mission while facing continuously the obstacles artificially created by lack of understanding.

Under no circumstances would I wish to create a wrong impression of my decision not to continue working unless the present conditions are changed. I shall always remain loyal to our mutual cause. However, nobody can expect from me to do a job without providing me with the basic requirements for our work.

By closing this letter, let me stress again, Sir, that I am regretting deeply the development, and also that I have to ask you for your personal help. Both of your visits here showed me the personal understanding you have for us and our problems. The confidence of all of us in you gives me the hope, that by your personal action the matter might still be brought to a good conclusion, and to find a solution which will fulfill the basic requirements for our work in the interest of our mutual cause.

Sincerely yours,

R. Schneider

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TO GERMANY ONLY

84. (Continued)

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- Incl. 1a - Copy of Memorandum to Col. PHILP concerning the Dissolution of the Organization, dated 2 February 1949.
- 1b - Copy of Memorandum to Col. PHILP, dated 24 January 1949.
- 1c - Copy of Memorandum to Col. SOROW, dated 13 September 1948.

- Incl. 2 - Origin and Development of the Organization.

- Incl. 3 - Copy of Memorandum to General WALSH, dated 9 June 1948.

- Incl. 4 - Examples to illustrate the lack of US support for this project.

SECRET/RELEASE
TO GERMANY ONLY

84. (Continued)

C O P Y
SECRET/RELEASE
TO GERMANY ONLY

2 February 1949

Copy of a Memorandum Forwarded to Col. PHILP
on 3 February 1949.

- I. There are two basic requirements which are needed from the American side:
- (1) We have to know early enough in advance, what financial means are available per month. Otherwise, it is impossible to do the necessary planning and to decide in time about the necessary dispositions for the operation.
 - (2) To have a good personnel policy with regard to the assignment of Army officers to our operation. It is impossible to run a hospital without experienced doctors. So it is impossible to run an intelligence operation without officers with the necessary background and with operational experience. The only officers with good or some operational experience are Major WALKER, Capt. WALDMAN, Lt. RICHARDSON. They are supposed to leave; one immediately, the others in a relatively short time. The rest of the officers of the unit - total 4 - are without any background and any experience, with the exception of Capt. REDDIN in the communications field. In the case of some of these officers, the lack of experience results in an absolutely wrong attitude towards the operation. This again causes disunity and distrust on both sides.
- II. For months I am asking now for clearness concerning the financial means, which are available for the operation in the future. I stressed that it is not the point to have more money. The point is to have clearness. Even if we do not get more money, I am satisfied; but then I have to cut down the organization for about 40%, since the dollar dropped about 40% in value, as I forecasted. Every time I was told not to cut down, because our funds would be increased.

C O P Y

SECRET/RELEASE
TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE
TO GERMANY ONLY

Since summer 1946 I was asking for the support by a sufficient number of American officers with the necessary background and experience. Up to now, this request was never fulfilled, not even in the utmost limit required for our work. In the contrary, the few experienced officers we have are being transferred - a fact nobody here or in the field will understand.

- III. I come to the conclusion that I cannot take the responsibility for the operation neither toward the American nor the German side, unless measures are taken immediately to fulfill these requirements mentioned above. If not, I have to resign from my position. I know that the leading personnel in the operational headquarters as well as in the field will not be willing to continue their work in such a case. Therefore, I will present a plan for dissolving the organization over a period of several months. I assured General SIBERT of our loyalty. Therefore, the dissolution will be carried out in such a way that the American political interests will not be hurt.

Our political conception regarding the cooperation with the United States did not change. Therefore, I regret very much that I have to make this decision. Anybody who was in charge of large intelligence operations must agree that under these conditions which we are experiencing, it is impossible to work. If these conditions will not be changed, I am not willing to lose my reputation by working without the necessary support and the fundamental backing.

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TO GERMANY ONLY

84. (Continued)

C O P Y SECRET/RELEASE
TO GERMANY ONLY

24 January 1949

Dear Colonel Philp,

The great anxiety I feel toward the continuation of our work makes me write these lines to you. The great confidence we all have in you, who has been connected with this work from its very beginning, encourages me to use free and open words in voicing this uneasiness.

From the beginning, I resolved to try my very best to win the most qualified German capacities for unre-served cooperation with the USA. In doing so, I was motivated by the following convictions:

- (1) A show-down between East and West is unavoidable in the long run.
- (2) Every German is under the obligation of contributing his share, so that Germany is in a position to fulfill the missions incumbent on her for the common defense of Western Christian Civilization on the side of the Western Powers.
- (3) For this reason, everything should be done to strengthen the leading power of this constellation, i.e., the USA, as far as this was compatible with our national conscience and our personal honor.
- (4) The epoch of the conventional national states has been superseded by greater conceptions, such as the Union of Western European States and the community of the Western oriented nations. This development does not exclude the conservation of our national characteristics within the framework of a West German federate state.
- (5) The above mentioned development will necessarily make the USA the best and most objective friend of Germany regarding a reasonable political and economic development.

Although you are already familiar with these arguments, I thought it advisable to mention them again in order to stress my attitude with regard to our work.

C O P Y

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TO GERMANY ONLY

84. (Continued)

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In the course of this work, I had the privilege of making the acquaintance, both in the USA and here, of eminent representatives of your country. I cherish the greatest gratitude to them all for the magnanimous understanding, which they have shown us in the course of our constructive work.

Since we have always tried to make the best of the existing possibilities, leading US circles may not have fully realized the extraordinary difficulties, which we have had to face in carrying out our activities. It is only in this way that I can interpret the lack of support which repeatedly endangered the continuation of our work, although it should not have been so difficult to grant us this support. May I mention the following examples:

- Waldman*
- (1) About mid-August 1946, General SIBERT promised to assign an adequate number of US officers experienced in IS matters to this project. However, until August 1947, only one such officer, i.e., Capt. WALDMAN, was available to the Commanding Officer. Only after this time, some officers have been successively assigned. Of these, in my opinion, Major BAIRD and Lt. KESTLINGER were entirely unqualified in the IS field. Capt. SWEARINGEN is unqualified and Major LEFFERS has only limited qualifications for the work done by them here. It need not be particularly mentioned that Lt. RICHARDSON, due to his previous assignment as Public Safety Officer, has speedily familiarized himself with his work, and that Major WALKER, because of his experiences in OSS, is a very great help to us.

In saying this, I may be countered to the effect that I am in no position to judge the US officers assigned to this project. However, I trust, you will grant me such a privilege with regard to the 26-year period of my military service and the many years of experience I have had in the special IS field. The employment of well qualified US officers, experienced in the field of IS matters, is of decisive practical and psychological importance to us. The utilization of unqualified officers, on the other hand, cannot but lead to an undermining of confidence of the German co-workers, because such a personnel policy would suggest the conclusion that the higher headquarters do not fully appreciate the importance and special requirements of the IS. I would, furthermore, like to point

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out that the assignment of such qualified officers, who have a fair command of the German language; is of the greatest importance for our entire work. Everybody who is sufficiently familiar with the functioning of an IS knows that personal contact and confidence means everything in this field, and that for this reason, it is not feasible regularly to change officers employed in it just as one changes one's shirt. Therefore, the intended transfer of Capt. WALDMAN, Major WALKER, and possibly Lt. RICHARDSON, the only experienced officers of this unit, would have very detrimental effects on the efficiency of this organization and would lead to the conclusion that the superior headquarters are not sufficiently familiar with the particular problems of our work. By way of conclusion I must, therefore, state that also in this point we have not been given the required support, although this would have been possible.

- (2) During the period that Col. LIEBEL was CO of this project; the situation prevailing here became untenable. The selection of such an officer, who obviously lacked every understanding of IS matters, has adversely affected the American authority within our entire organization. This was partially compensated only by the fact that our organization had previously been given the chance of making the acquaintance of men like Mr. Sam BOSSART, who, on behalf of CIA, visited the various field agencies of this organization for several weeks and who, through his extraordinary experiences in the IS field, left a permanent impression. Also in the case of Col. LIEBEL, we succeeded only after many months in bringing about a decision with regard to a change of the CO. All the accompanying circumstances were very regrettable. The fact that Lt. KESTLINGER got off with a small fine for his embezzlement of funds, in order to protect Col. LIEBEL, whose most diversified activities did not remain unknown to this organization, has not enhanced the confidence in the American sense of justice, which has also suffered from the way in which various political trials were conducted. Rightly or wrongly, the apparently intended transfer of the most qualified US officers, such as Capt. WALDMAN, Major WALKER, and possibly Lt. RICHARDSON is viewed in connection with the LIEBEL affair.

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TO GERMANY ONLY

84. (Continued)

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On this occasion, I would like to tell you quite openly that my own confidence in the future of our common cause was so gravely shaken by all these events, that I would not have continued in this position if you, with whom we have been acquainted since the period immediately after the war and from the very beginning of our work, had not become the CO of this unit.

- (3) The conduct of IS activities is a matter of long-range planning. This includes long-range planning also in the field of finances. I am completely aware that such financial planning, due to US budget problems, has its special difficulties. In spite of all our urging, which was done on various occasions in due course and which is on record, we have not met with the possible support in this field. For instance, a considerable time prior to the introduction of the currency reform, we drew attention to the difficulties to be expected for our work, and actually got into a grave plight immediately after this currency reform. If even the French and British IS, which are supported by countries of less financial means, succeeded in making the new currency available at the lowest levels on the very day the currency reform went into effect, it is difficult to understand why such a settlement should not have been possible to the US IS.

The currency reform has resulted in an overall picture of the financial situation of this organization, which requires an immediate decision either drastically to cut this organization and the activities conducted by it or to allocate the means required for the continuation of this work in its previous extent. I have submitted the required records in my Memorandum dated 31 December 1948. In the two conferences, which were also attended by some gentlemen from Washington, we were told that our activities should continue as before, since we could expect a proportional increase of the sums to be allotted to us. In view of this communication, no change in the activities of this organization has been effected so far, and owing to the assistance rendered by EUCOM by the transfer of a smaller amount of money, the

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84. (Continued)

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period until the end of January could be bridged. Now, the time has come for a decision, the fact being stressed that all measures to be taken for a reduction of our organization require a wind-up period of about 3 months.

- (4) In order to furnish an additional minor example of the effect of a decision, which we have difficulty to understand, I would like to point out that Mrs. WALDMAN's unexpected leaving this organization in the next days would lead to a considerable reduction of the amount of reports handled by us, since no qualified replacement is available and no officer can be made available for her former missions without detriment to other important tasks. Moreover, the editing job requires a prolonged period of familiarization. Otherwise, lack of experience as to the way of cooperation with the translation section will lead to a great number of mistakes, which it will take some time to eliminate.

In writing these lines, I have selected only a few points to characterize our situation. I would like to stress once more that my belief in full US-German cooperation and the basic fairness of the US agencies with control of our work, remains unshaken in every respect. This is largely due to the personal contact with a number of eminent officers who are outstanding in their respective fields, such as individual representatives of the War Department; General HALL, Col. SCHOW, and Lt. Col. KRETCHFIELD in Europe; and last but not least, you yourself. On the other hand, I must confess that such confidence does not exist regarding the efficiency and competence of those parts of the US IS with which we have to perform our work.

Since I am responsible not only to the US as to the efficiency and loyalty of this organization, but am simultaneously charged with the responsibility, vis-a-vis the entire circle of the German co-workers, for the continuity of our work and their personal security, I feel obliged to submit to you, in a few days, some amendments of the Organizational Directive for the 7821 Composite Group, dated 13 October 1948, and of the various pertinent supplements, since several points are not acceptable to me in their present form.

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TO GERMANY ONLY

84. (Continued).

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I am perfectly aware that certain difficulties are inherent to the particular nature of our work. For this reason, it seems to me all the more necessary that all reasonable US help for eliminating the avoidable difficulties should be granted to us by the competent US agencies. Should it not be possible to grant such assistance, the continuation of our work would lose its necessary basis and I would feel obliged to propose the dissolution of the entire organization. It goes without saying that in such a case, I would take all measures to effect the dissolution in the most loyal manner, which would in no way affect the political interests of the US.

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84. (Continued)

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Excerpt Copy

13 September 1948

MEMORANDUM TO: Col. SCHOW

THRU Lt. Col. BERRY

.....

Already before the introduction of the currency reform, the financial means available to this project were too limited in relation to the required information and the extensive activities of this project. That it has been possible, on the whole, to furnish the required information in spite of the above disproportion is certainly due to the fact that almost all co-workers of this project have been motivated by idealistic considerations, which has made our project by far the most inexpensive intelligence service of the world.

The appropriation of \$125,000 per month after the introduction of the currency reform, in its actual effect, represents a considerable reduction of a budget which itself had not been adequate.

This reduction has led to a temporary suspension of the planning in the field of strategic intelligence activities, which had been necessitated by the received intelligence requests. Furthermore, due to the shortage of means, also the tactical IS activities had, for the time being, to be reduced by 30 - 50%. After a consolidation period of about one year, during which all but first-class connections had been dropped, the above limitation of our tactical IS activities is on the point of affecting the substance of our most reliable connections. In this connection, it must be pointed out that a severed reliable connection cannot be resumed at will.

I feel obliged emphatically to point out this fact and the certain decline in the number and quality of the information which it will be possible to obtain.

But there is still another factor which has an unfavorable effect on the activities of this project.

Excerpt Copy

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84. (Continued)

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Prior to the beginning of the new fiscal year, the German chief of this project submitted to the GO a proposal for a budget, which was adjusted to the received intelligence requests. Thereupon, prospects were held out to me according to which I could expect an increase of our financial means. But instead of this, I was informed on 11 September 1948 that, effective immediately, this project had to reckon with an even smaller sum than \$125,000 per month. This reduction was explained by the fact that henceforth the rations, PX articles, POL books - contrary to the former usage - would have to be included in the \$125,000 allocation and that, furthermore, additional payments will have to be made to cover a debt of about \$130,000. This constitutes such a considerable reduction of our financial means, which have been inadequate before, that the immediate reduction of about one third of the activities of this project must be decreed.

If there are imperative reasons for such a reduction of our financial means, it is not up to me to argue about it.

Valuable results may be secured with a considerably reduced project on condition of a corresponding limitation of the requested intelligence, it is true. However, it is absolutely necessary that we should be informed, at least 6 months in advance, what financial means will be available to this project. Only such an information would guarantee:

- (a) Accurate financial planning by subordinated organization leaders;
- (b) A prior and timely planning of the activities of this project;
- (c) The elimination of human hardships and security threats to the operation. A discharge without any previous notice requires a cooling-off period of about three months for the affected individuals, and causes additional non-productive costs to the operation during this period.

I should appreciate very much if I were informed, in due course, about the financial means which this project can definitely expect for this fiscal year.

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84. (Continued)

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In submitting this memorandum, I believe to serve simultaneously the interests of the designated CO of this project.

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TO GERMANY ONLY

Secret

84. (Continued)

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Origin and Development of Our Organization

1. Origin of the Organization

During World War II, the Department "Fremde Heere Ost" (Foreign Armies East) of the German High Command of the Army dealt with Eastern Intelligence. This department was to procure a continuative picture of the war potential of the Soviets and to give a daily opinion of the enemy's situation on the Eastern front.

The department consisted of specialists for Eastern affairs. In addition, the persons holding key positions in the department were expected to have special abilities and experiences in the operational field. Since April 1942, the department was under the leadership of the present German chief of our organization.

Before the end of the war, the latter made the decision to save by all means the personnel and the collected records of the department for the benefit of the USA in the post-war period. The reasons for this decision were the following:

- (a) The conviction that in the future, the USA would become and remain the leading power for the defense of Western Culture against Communism.
- (b) The conviction that Germany would have to do its share in this defense, realizing that the age of national states was over and would have to give way to the greater conception of the United States of Europe within the frame of the United Nations.

When Germany collapsed, it was possible to save the majority of the valuable personnel and the records of the Department "Fremde Heere Ost".

In the summer of 1945, a group of 7 specialists, together with the essential parts of the records, were taken to the USA and put at the disposal of the War Department.

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TO GERMANY ONLY

At first, this group, directed by the former chief of the Department "Fremde Heere Ost", made studies resulting from the complete evaluation of their wartime records. Later on, this group also did actual evaluation work to an increasing degree from more up-to-date material supplied by the War Department as well as detailed evaluation of the Soviet military press. Both the evaluation work and the studies found the appreciation of the War Department.

Meanwhile, on suggestion of the former chief of the Department "Fremde Heere Ost", a small German information collecting organization had started work in Germany as a Special Project of USFET. The German chief of this collecting center was the former chief of the "Abwehrleitstelle Ost" (Field Intelligence Office East), who during the war had worked in close connection with the Department "Fremde Heere Ost" and according to special instructions from the chief of this department. Although limited in scale at the beginning, this information work soon brought valuable results.

In summer 1946, the group of specialists returned from the USA to Germany. To realize his above mentioned ideas - that Germany should do her share in the defense of Western culture against Communism - the German chief focussed his attention to the following points:

- (a) To bring together and to coordinate the collecting and the evaluation of information.
- (b) To work on a larger scale.
- (c) To find a form of organization making it possible to call upon the cooperation of the best German men in this field without developing in them a mercenary feeling in pay of a foreign power.

During a fundamental conversation with General SIDERT, full conformity was attained to the effect that a German organization should be created under American supervision and with American material help, which should make use of the best available German co-workers for intelligence work against the Soviet Union to the mutual advantage of American and German interests.

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84. (Continued)

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This basic conception of a German organization working together with the USA, made it then actually possible for the chief of the whole organization, as the further development showed, to get the best German men as co-workers without their being handicapped in their cooperation by the idea of working as mercenaries in the pay of a foreign power. From the very beginning, the work of the organization has been carried on by the conviction that ideologically we are all on the same side, that the fate of Germany must politically remain closely linked with the USA in the future, if Western Culture is to be safeguarded.

2. Assignments of the Organization

The first assignment given to the organization was to get as accurate a picture as possible of the OB of the Soviet Armed Forces in the Soviet Zones of Germany and Austria. In addition, the organization was to do GI-work in so far as it was necessary for its own protection.

However, this limited scale of commissions for intelligence work was very soon extended, from a geographical point-of view and by EEI's in the economical and political field.

It was only natural that, thereby, the organization was fast increasing too.

The mentioned basic conception made it possible to get the required German experts as co-workers. Also, because of the political irreproachableness and the good reputation, which the German chief of the organization enjoys in all German circles, experts from other branches - noted politicians and industrialists among them - could be approached.

3. Extension, Work, and Effectiveness of the Organization

The extension of the organization was determined by its first assignment and the enlargement thereof. That this mission could be carried out with a relatively small amount of money was due to the basic conception agreed to. This conception made it possible to create and to keep idealism the pre-eminent impulse for the work in the organization. Thereby, it has been possible to use the major

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part of the money allotted by the American side purely for operational funds. Salaries were paid only to people holding full-time jobs in the organization, i.e., about 15%. How cheaply the organization has been working during the first two years of its existence is illustrated by the fact that the average cost for one report amounted to about 12 - 15 Dollars.

A severe test for the idealism of all co-workers of the organization was the large amount of difficulties resulting especially from the fact that the organization was working from out of an occupied country. Only a few of them are mentioned: Obtaining houses, transportation, legalization, denazification and demilitarization, procurement of documents, securing of communication means. Although the responsible American officers at EUGOM were trying their best to assist wherever it was possible, the actual realization of this assistance proceeded very slowly, because up to the summer of 1948, the number of American officers working with the organization was too small. The few officers assigned showed endeavors deserving the highest praise to remove the technical difficulties. But they were too much tied down to office work and, therefore, could only comparatively seldom use the most effective way, i.e., to personally clear up the technical difficulties on the spot, that is out in the field. If a well organized American operational branch, cooperating directly with the organization, would have been added at an early date, staffed with a sufficient number of IS-trained officers, the organization would have been saved much trouble and disappointment, especially those parts working out in the field, in enemy country so to speak, and who risk their lives, or at least their freedom with each commitment.

In spite of that, it was possible during the first two years of the work of the organization to fulfill completely the first mission and the major part of its extensions. The OB of the Soviet Zones of Germany and Austria was fully ascertained and is being watched continuously. The OB in the Balkan Satellite States too was cleared up more and more. Important parts of the economic and political EBI's were compiled with. Strategical intelligence was launched step by step - though naturally rather slowly - into the depths of Soviet territory and Soviet controlled areas. Furthermore, CI work beyond the

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actual protection of the organization brought valuable results, especially with regard to the Soviet IS and the institutions used by it.

To an increasing degree, the results of this work were being appreciated by the responsible American officers at EUCOM as well as by the frequent visitors from the highest authorities in the USA. Repeatedly, our organization was even informed that it supplied about 70% of the Intelligence of the European Theater.

The amount of incoming reports, in spite of the limitations in funds and supplies, has once more shown an increase, bringing the total number of reports to more than 8,000 in October 1948. In addition, the reports have increased in quality as well.

This improvement was largely due to the leader of the organization, who has appealed repeatedly to all the members to give proof of their idealism and do their best in helping to bridge over the period until increased funds are available and not to interrupt the steady upward trend of the organization as a whole.

By careful planning of the overhead and through tireless efforts displayed by everyone, including the lower levels of the organization, conditions have been created, based on long experience, which make it possible from an IS point of view to fulfill the majority of the briefs given by the American side. These briefs are constantly increasing in number. A budget estimate of required funds, showing and explaining the details, was submitted to the American side before the beginning of the fiscal year 1948/49. This estimate was based upon the theoretical presumption that all the given briefs would be complied with. It was clear that the allotment of funds would depend upon the whole American IS budget and that any reductions in the latter would consequently show in the allotment of funds for the organization. But it seems necessary to make available for the organization at least such means as to enable it to carry on to the same extent as before and, in addition, to realize the prepared strategical lines, to go into the depth of the Russian orbit, and to build up the radio net (radio agents, monitoring and direction finding, command net and radio CI on a limited scale).

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Copy of a Memorandum to General WALSH,
Delivered Thru Major ALLEN

9 June 1948

I. Introduction

When submitting the following thoughts, I request to take into consideration that these thoughts originate from the feeling of responsibility I have toward you as well as toward the organization. This responsibility puts me under the obligation not to accept passively facts which must be altered in the interest of our work. If I seem to be criticizing, my best of intentions and impartial matter-of-fact considerations are the only reason, certainly not the desire to criticize in itself. I can look back upon 26 years of service as a soldier, which brought me into various positions. In all these positions, I worked to the full satisfaction of my superior officers. Therefore, I believe to be justified in claiming a sound judgment on the questions which are being raised in the following.

II. Situation from Spring 1946 until September 1947

A. Basic Conception

The fundamental basis of our work has always been the basic conception agreed upon at the beginning of our work. This basic conception was that all of us Germans who had many years of operational experience will work together with the Americans, paying particular attention to all such intelligence which is of special interest for the USA. Furthermore, we agreed that the system of our work would be restricted by certain factors dictated by American foreign policy for the purpose not to compromise the American side and also not to endanger our project.

The basic conception mentioned above made it possible for me to obtain the cooperation of outstanding German nationals who are good Germans but also ideologically on the side of the Western democracies. It was not a question of hiring people for a foreign power, but to call these people to work with a partner who was ideologically on the same side.

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This basic conception was the reason that we could build up this operation with a comparatively small amount of money, as we did. We did not have to pay people for their services, we only had to provide those who were fully employed by the operation with the absolutely necessary means of support, leaving the bulk of our funds for operational purposes.

The period of building up the organization was successful in spite of technical difficulties created by working from an occupied country: Housing, transportation, legalization, denazification or rather demilitarization - just to mention a few. However, we succeeded in overcoming most of these technical difficulties with the assistance of the American officers assigned to this project.

B. Working Method of Col. DEANE

Up to September 1947, Lt. Col. DEANE was the CO. He strictly adhered to the basic conception.

When he started his work, he had little experience in the field of intelligence. But he soon succeeded in creating an atmosphere of confidence with his officers as well as with the German side. He always used common sense and was willing to accept suggestions. He quickly learned the essentials of intelligence work and showed an understanding attitude toward the German side. However, above all, he gave to the American officers assigned to him freedom of acting on their own decisions by delegating to them the incoming work in a very able manner. DEANE confined himself largely to fundamental matters, thus inciting his officers to demonstrate initiative on their own.

During the time of Lt. Col. DEANE's being CO, the mission of the operation was much more limited than today, in consideration of America's foreign policy. Therefore, there were only relatively few big problems at that time, but the number of minor technical difficulties was much higher than today. Their removal was more difficult then, because the operation had not yet enough credit. Nevertheless, the difficulties were overcome for the above mentioned reasons.

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This was handled in the following manner: If any problems came up, they were trustfully submitted by the German side - according to their importance - either to Lt. Col. DEANE or to his officers. Col. DEANE then either drove himself or, more frequently, sent one of his officers to the place concerned, e.g., EUGON or places somewhere in the field. At EUGON, decisive help was being given in most cases by Col. SCHOW or Col. FRITZSCHE (e.g., in all fundamental matters regarding funds, documents, support in the British Zone by approval of the Survey Detachment, etc). In the field it was mostly due to the capability and determination of Col. DEANE's officers who were sent there to remove difficulties.

At times, one of Col. DEANE's officers would be out with the Ida's for 10 days, arranging matters he was well acquainted with (such as getting houses, residence permits, arranging denazification matters, etc). At the same time he would learn of other difficulties which he would remove on the spot. Besides, many valuable suggestions were made to the officers who were out in the field (for instance, one of the officers talked to a courier who suggested the use of US military trains by our couriers. This was arranged shortly afterwards).

In case Col. DEANE himself was on a trip, he authorized the next ranking officer to act as his deputy in order to guarantee the continuation of work.

With this sensible method of work and the untiring efforts of Col. DEANE's assistants, it was always possible to overcome dangers resulting in some breakdowns which are unavoidable in intelligence work.

In general, the chart of American support for our work showed an upward trend until September 1947, because the CG was suited for this position.

III. Difficulties Since September 1947

In September-1947, Col. LIEBEL arrived as the successor to Lt. Col. DEANE.

It was only natural that the German side was awaiting him with all expectations that a specially selected officer would have been commissioned. It was taken for granted that:

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- (a) Col. LIEBEL would be an officer with experience in intelligence work;
- (b) The basic conception would remain the same;
- (c) Col. LIEBEL would have been briefed accordingly.

It was quite obvious that, at the beginning, Col. LIEBEL tried his best to establish a good contact with his subordinate officers as well as with the German side. However, this attitude changed considerably when Mrs. LIEBEL arrived. Besides, it soon could be noticed that Col. LIEBEL does not have the necessary experience in intelligence work and that he has no understanding for our work under the prevailing circumstances. This is shown not only in his treatment of the large issues in our work, but also in many small affairs of daily routine work, more or less insignificant, but paralyzing the joy to work and creating displeasure. I quote the following examples:

A. Large Issues

1. Lack of Operational Experience

Col. LIEBEL has no idea how valuable information is being obtained. One example of many to illustrate this is the following: The journey of an important agent to Paris, where he was to receive information about the SU from a strategical connection, was prohibited with the explanation that we should work East of the Rhine River and that our man should meet the man from Paris in Switzerland. Thus, this information was lost to us.

Also remarks, such as: "We are doing too much easy work"; "Have too many people inside and too little outside"; "Spending too much money on reports within the zone"; his demands for an increase of the number of agents working in enemy countries and for a reduction of the number of people working within the zone, show that he had not the right conception. A certain organization within the zone (our sub-organizations), at present about 600 people, is necessary.

2. Difficulties in Discussing Operational Questions

Quite often Col. LIEBEL does not listen to me to the end. If a problem is presented, he jumps to conclusions, makes decisions and gives orders before he

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heard the whole story. Then there are extreme difficulties in work to continue to convince him about something when he said "No" already after hearing only the first sentence. Due to the lack of operational experience, the smallest things have to be explained in all detail at the expense of time and energy. Quite often the lack of understanding is so complete, that I do not dare to make suggestions which are beyond those suitable for a boy scout outfit. In case large issues have been submitted which he approves of hesitatingly but which require approval by higher headquarters, there have frequently been indications that he either did not forward them at all or only after considerable time had elapsed (Malta).

3. Faulty Working Methods of the CO

Based on many years of experience in my work against the East, I have built up this organization as it is now at your disposal. The direction of such a large organization demands that I confine myself to the big problems and decisions only and am not losing my time with minor affairs, which I can delegate to my assistants. Col. LIEBEL is mostly occupied with small affairs, thereby neglecting the large issues. Due to his long hesitations and by obtaining the decisions from EUCOM too late, "Operation 301" and "Operation SOKRATES" failed. It was planned to get into our hands top specialists from the Russian Air Force and the Commander-in-Chief of the Slovakian Air Force. These people could have given us most valuable information. It would be better if Col. LIEBEL would devote all his energy to these questions instead of bothering about small details, such as the filling of the swimming pool.

4. Lacking Understanding of the German Mentality

Col. LIEBEL has no knowledge of the German mentality and, thereby, frequently makes mistakes which are bound to decrease the confidence. Therefore, I have some time ago asked you, general, the question if our basic conception is still the same, for the reason that I had gained the impression from the conduct and the frequently offensive attitude of Col. LIEBEL that

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he was going to follow a different line of policy regarding this question. A typical example is the draft for an order, the acceptance of which I refused in a written reply; a copy of both is submitted herewith.

In addition, Col. LIEBEL quite frequently tries to play out one person against another. During my trip to Switzerland, he offered an important position to one of my gentlemen; in spite of the refusing response of my deputy. Col. LIEBEL knew that in certain matters, this gentleman and I were of contrary opinion, but he did not know that this gentleman would refuse to be played out against me. At this occasion, he had a private conversation with this gentleman regarding matters of our organization, and he asked him for complete discretion. This incident has been settled by a personal talk between Col. LIEBEL and myself. However, the actual facts cannot be erased. In connection with this affair, Col. LIEBEL made the remark to my first assistant that he had the intention "to better or to bust the whole thing".

Col. LIEBEL's wrong conception of the work and mentality of our people in the field is also illustrated by several remarks to the effect that our men are paid much too well (the opposite is the case); there were some people who were getting too rich, etc. If one knows the difficulties under which our agents in the field are obtaining their information, often practically without payment, and that we are losing people all the time, this is most embittering.

5. Security

In matters of security, Col. LIEBEL's conceptions are sometimes hard to understand. He is most annoyed about every small security violation in the field, but is completely overlooking the fact that slips of this kind are unavoidable in the intelligence service. Up to now, he does not appreciate the fact that the number of actual security violations has been surprisingly small considering the size of the organization. It was especially annoying for us that he formed an opinion immediately upon receiving a report concerning an alleged

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security violation before he had the results of our own investigation and the report from our own sources. In most cases, these showed that the situation was entirely different in reality.

In contrast hereto, Col. LIEBEL showed a lack of corresponding care regarding security within his own sphere. When we had just arrived here, he kept the Industrial Guards in spite of my warnings, until it turned out - as we had expected before - that the enemy intelligence service had agents among those guards. The practical results were two attempts to burglar my house with the purpose of stealing documents and identifying the background of my own person. During one of these attempts, our housemaid was knocked down. Contrary to my suggestion, Major BAIRD, who is most unsuited for this job, was ordered to pursue this affair with GIB.

Recently, the cousin of Col. LIEBEL, who has nothing to do with the organization, was shown around by him in the compound. The daughter of Col. LIEBEL brings along her girl friends to the swimming pool located within the compound (Col. LIEBEL lives outside the compound). Besides, I doubt whether it is reasonable that the 16 year old daughter is being informed about the nature of our work by using her temporarily for the editing of reports.

In addition, upon request of Mrs. LIEBEL, Col. LIEBEL assigned a nurse to the dispensary who lived outside and did not belong to the organization. It was only upon my protest that this assignment was revoked.

6. Wrong Organization of the Work in the American Staff

The biggest and most serious mistake was the complete laying up of the Operations Office in the own staff. One could hold it against me that this is a purely American affair and none of my business. But the unfavorable effects on the whole organization force me to stress particularly this point.

Col. LIEBEL has not delegated any duties or authorities to his officers. Decisions and signatures he reserved mostly for himself. He very seldom hears

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the advice of his officers with regard to ripening problems, though some of them are much longer in this business, than he himself. Therefore, he often makes unsuitable decisions which are frequently immediately transferred into orders. This procedure has unfavorable effects.

During the absence of Col. LIEBEL, it is impossible that his first assistant, for instance, can send a cable to the Military Attache ROME in order to announce the arrival of a gentleman with an important mission. Of course, the result is a failure. Every smallest decision in the operational field, each request for supplies or every unimportant administrative measure requires his special approval or signature. Even within the compound it is impossible to move an office into another room without his indorsement.

All this has detrimental results, especially during the absence of Col. LIEBEL, e.g., delay in forwarding reports and correspondence.

The consequences are considerable delays in many small matters, which are in no sensible proportion to the importance of our mission and which make the work much more difficult for the German side of the organization. Conditions out in the field are thereby made so much harder, although many things, which formerly meant a hard battle, have become matters of pure routine work (e.g., licenses for cars). In most important matters there were grave difficulties (e.g., residence permits), so that there were heavy losses in confidence toward the American side out in the field, which were ultimately the fault of Col. LIEBEL. On the other hand, all the initiative and incentive of the American assistants will be very much decreased by Col. LIEBEL's working methods.

On the occasion of your last visit, I submitted this summary of insufficient American support of the organization to Col. LIEBEL, after my former individual attempts had not been successful. The different problems were by no means of a nature that their solution would have been impossible under the present circumstances. They were merely matters which were not dealt with due to negligence or wrong organization of the work.

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During the last months, I have repeatedly requested that an Operations Section should be formed under the management of the officer who has done all this work for 18 months, and that Col. LIEBEL should arrange his work according to the same principle as I do it myself. He should reserve for himself the decisions on fundamental questions but, otherwise, leave a free hand to his officers. However, Col. LIEBEL did not decide to bring about any alteration until he realized my determination to appeal to the next higher headquarters in case nothing would be changed. Instead of making the two officers the nucleus of this Operations Section, who have a first-class knowledge of the total organization, its working methods and its mentality, and who have the complete confidence of all field installations, it is planned to get a number of new officers and to assign a new Lt. Col. as the Chief of this Operations Section, who is not acquainted with us and our working methods. During conversations with me, Col. LIEBEL emphasized that he wanted combat officers only and not officers from the Intelligence branch. Exactly the contrary is necessary. The two officers who so far were brought here by Col. LIEBEL, Major BAIRD and Lt. KESTLINGER, are nice fellows but quite unsuited for their jobs. I request you, general, to take into consideration that I have succeeded in securing for you the best German staff available for our work. If the American side has not likewise assigned only the best of the available American staff, it is a psychological disadvantage and detrimental to the American cause.

May I explain this with another example: During a conference with the leaders of the sub-organizations on 25 May, Col. LIEBEL was requested to say a few words about the political situation. Col. LIEBEL then gave his general opinion, which was noted down in shorthand and did not show the mental level one should expect. Among other things he declared that the Germans themselves should see to it that the Communists are being removed from public life in Germany. They should be hit over the head with a stick and thrown out of the country. This primitive conception shows a complete misunderstanding of the German situation. Mainly it is a matter of eliminating the influence in disguise,

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which cannot be removed without the aid of Military Government and without the means of Counter-Intelligence. Remarks like this support the leading members of the organization in the opinion that the importance of this question in future times is not fully realized by the American side (Example: The Chief of Police in Stuttgart is officially not a Communist. However, he is a crypto-Communist and the Communists direct him by the Centrale Sanitaires Suisse).

I request not to misinterpret my meaning when I try to illustrate the situation with the following sentence: If our work has continuously improved during the last months with the unselfish aid of each individual member of the organization, if the number and quality of the reports increased and the security improved - this is not due to Col. LIEBEL's guidance, but in spite of Col. LIEBEL's guidance.

7. Radio Command Net

In the new budget estimate, the costs for the creation of a radio command net were stated, which has to be constructed in peacetime so that it can work in case of emergency. It was at first crossed off the list by Col. LIEBEL until the necessity of such a net was explained to him. This is one of the examples showing quite clearly that Col. LIEBEL does not possess the necessary operational experience for our work.

8. Case HENGL

An organization leader who contributed largely to the success we had so far, had the hard-luck that a net of 9 men blew up in the Soviet zone. In connection with some other security violations, which happened at the same time, Col. LIEBEL gave orders to drop HENGL immediately, before the situation had been sufficiently cleared. It took long explanations of the reasons why the dropping of this man would neither be possible nor deserved nor useful, before we succeeded that this order was not given.

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B. Small Items

There are daily many small examples showing the little understanding of Col. LIEBEL. They are unimportant in themselves, but they do not increase the pleasure to work. Only a few are mentioned in the following:

1. Contact with the Organization

For many months and contrary to former times, none of the American officers has been going out into the organization, with the exception of a few briefings which Col. LIEBEL himself held with the organization leaders. In spite of my requests, the two officers were not taken along who are dealing with the individual problems and who could have discussed details of these problems with the organization leaders.

2. Tactless Remarks

With the exception of recent times when things have changed a little, I often felt offended by opinions and unfavorable remarks mentioned by Col. LIEBEL in connection with alleged faults of the organization. Frequently, these allegations proved to be non-existent when examined later on. At one occasion quite discrediting remarks were made concerning the German General Staff to my deputy.

Another example: When the Inspector General was here, he asked who built up the Document Section (for falsification of papers). Col. LIEBEL said he himself did it. In reality, Organization Leader 66 had the merit. Such things make a bad impression and people are hurt.

III. Conclusion

In summarizing, I have to ascertain quite impartially that, according to my opinion, Col. LIEBEL is not suited for the position of the American CO of our organization. The reasons are the following:

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- (a) Insufficient intellectual frame for the required task and for the necessity to have an American counterpart for the German representatives with equal or superior mental capacities, as - for example - Col. SCHOW or Col. PRITZSCHE or Col. LOVELL.
- (b) Lack of operational experience in intelligence work. In this connection, the following should be mentioned: Mr. Sam BOSSART (cover name [redacted]), who visited the organization for 4 weeks in spring 1947, succeeded within this short time to gain the complete confidence of the organization. His wide experiences in IS matters, his understanding of the necessities of the organization, his sound judgment of the political connections gained him the warm sympathies of all those members of the organization who got in contact with him. Even today he is remembered with praise by the staff of the overhead and by the organization leaders. He did very much for the reputation of the American side.
- (c) Lack of knowledge of the German mentality and lack of sensitiveness toward the German part of the organization.

The decisive basis for our work on both sides is the mutual confidence built on close personal contact, developing and increasing in the course of a close co-operation. Lt.Col. DEANE possessed this confidence, and also the two officers who are working with us for some time now. However, so far this confidence could not yet develop toward Col. LIEBEL.

- (d) Lack of understanding for the work done in the organization and the management under the present circumstances. This understanding can only be obtained through contact with the life of the members of the organization in German public life and its present difficulties. Only the two aforementioned officers have acquired this understanding in the meantime.
- (e) Inability to delegate the work to be done to his assistants, according to requirements.

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I regard the farther development of the organization with great anxiety. During the last few months, the confidence has been considerably decreased by lack of support from the American side which could have been avoided. If the situation cannot be improved by assigning a capable CO who can win our confidence, the capacity of the organization would suddenly decline considerably and the whole organization would go to pieces within a few months.

I do not come to you, general, in order to complain or to criticize. I address you with the following request: Do help us, so that we can fulfill our task according to your directives, to the welfare of the United States and to the welfare of Germany.

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5 March 1948

MEMORANDUM TO: Dr. SCHNEIDER

An increase in the number of cases of security violations indicates to me that little attention, if any, is now being paid to the agents dispatched on important missions.

It is essential that the quality of agents be improved. I expect the cooperation of all leaders in this matter.

Drastic action must be taken to reduce the number of poor agents. This headquarters will take positive disciplinary action in all cases if investigation discloses a security violation has been committed due to negligence or improper training of agents.

Disciplinary action will be in the form of reduction of funds, and/or dropping of personnel responsible. I have directed that each violation will be presented to me for final action.

Good work will also be rewarded in the form of increase in funds.

Again let me impress upon you, -that good reports can only be obtained by good agents. -Poor personnel is a liability and must be eliminated.

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C O P Y

11 March 1948

MEMORANDUM TO: Col. LIEBEL

I am sorry, but I have to declare that, for the following reasons, I cannot accept the order forwarded to me:

I. Factual Reasons

- (1) It is not correct that the violations of the security regulations increased during the past months. This is indicated by the following figures:

Since the beginning of 1948 until now, only 5 security violations were reported, including 3 of minor importance. That means of the total of 4,000 members of the organization - 0,12%.

- (2) The passage "... that little attention, if any, is now being paid to the agents dispatched on important missions" contains an unjustified reproach toward me, as the responsible German leader of this organization, and toward the entire organization as well. Therefore, this accusation in this general form must be contradicted. Faults may be found with every institution, regardless how good it may be.
- (3) Colonel, you are not in a position to take disciplinary measures within this organization without my consent because this would violate the basic agreement, which was made between General SIEBERT and me with regard to our work. This subject, however, may be discussed later.
- (4) As I have obtained my experience in intelligence activities against the Soviets during many years, I am well aware that good reports can only be supplied by good agents. It is, however, a peculiarity of the tactical intelligence that not only first-class agents can be employed. Otherwise, the required quantity of reports could not be procured. Consequently, violations of security regulations cannot be avoided, and it is the duty of the leading people to keep these violations to the utmost minimum.

C O P Y

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II. Basic Conception

Even before the end of the war, when I still held my former position, I took the preparatory measures necessary for our present cooperation with the USA, because I anticipated the great political post-war development. Soon after the armistice, I offered our German collaboration, pointing out the political development which was to be expected. My judgments of the situation during that time were later on proved that I was right. I had the idea that, as early as possible, the available German people should be given the opportunity to participate in the defense against the Communist expansion within the frame of the Western Powers. By using my reputation in all these German circles, I tried to win the help of all Germans willing to cooperate and, thus, to pursue the goal to restore the mutual confidence which was lost during the past 15 years. Our work was based on the conception that we as Germans may cooperate without acting against our national conscience. We are under no circumstances mercenaries. General SIBERT recognized all this and particularly that we as Germans do not work only for America, but in cooperation with the American side for our common goal. I myself assumed toward General SIBERT the responsibility for the leadership of the entire organization and simultaneously gave my word as a German officer to guarantee implicit loyalty of this organization toward the USA. The US officers working with me are witnesses that I followed these principles during all this time.

The organizational division of the headquarters of the entire operation expresses this conception. A German office stands on the side of the US office. The German office is operating on the basis of a personal relation and a common staff. This work did well so far, and this organization of headquarters stood the test.

The organization operates under extraordinary circumstances. The distinguishing marks of its activities correspond neither to peace-time nor to war-time conditions. The bulk of the co-workers operate under most difficult and trying personal circumstances, only for ideological reasons and do not agree to the conception of an institution hired by the USA. The mutual relation between the USA and German side is best characterized by the example of an inventor.

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The inventor has an idea. To realize this idea, he applies to a partner who finances the project and consents to the idea. The result is for the benefit of the two partners equally entitled morally. If this cooperation, based on mutual confidence, turned out successful as it is the case with our work, the two partners will combine into one unit in their field of interests.

If someone criticizes the organization and the faults committed by it, he has to acknowledge an equal right to criticize also the faults committed by the American side. Some examples may be given in short:

- (1) As long as one has to work under present conditions, the employment of a sufficient number of US officers for the directing of operational issues is of decisive importance. Already in July 1946, I asked therefore General SIBERT to furnish a sufficient number of such officers. He agreed. When after General SIBERT's leaving these officers should be assigned to Lt. Col. DEANE, the latter refused them. Most of the difficulties, which are caused by insufficient support of the organization, are to be traced back on this measure. Even now, only one US officer is in charge of the operational issues which would require the full efficiency of at least three officers, and this only present officer has not sufficient authority.
- (2) Having made some previous instigations, I asked in January 1947 to take preparatory measures for moving our headquarters to another location, because the camouflage can always be maintained for only 9 - 12 months and the location has to be changed afterwards. Such preparatory measures were not taken until July 1947. Fortunately in August 1947, General WALSH himself ordered to carry out this change of location until 1 October 1947 because of the forthcoming LONDON Conference. The organization took all preparatory measures for the change of location, for the shifting of the courier lines, etc. in due time. The change of position was, however, not possible earlier than in December 1947. I realize the reasons and difficulties to make impossible the observation of these terms. But then, the reasons and difficulties have also to be realized which arise within the organization itself frequently because of the present circumstances.

3
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TO GERMANY ONLY

84. (Continued)

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- (3) Since several months, the procurement of another quarters for the Organization Leader 121 was requested. Until today, however, it was not possible to procure such other quarters. If now the organization is compromised because WONDRAK attracts the attention of others, then this is not the fault of the organization.

The case of WONDRAK is not the only one, but the most characteristic one, because in this case the security was clearly endangered as it had been predicted by us.

A similar case is the allotment of a house to the leader of Organization 178. This organization leader had to direct his organization right from his motorcar, always carrying all his files along with him in a suitcase until he was given a house for which he had waited for almost one year. Thanks to the skill of this organization leader, no violation of the security happened.

Another especially characteristic case is the allotment of a house to the leader of Organization 8500. The latter, presumably, will get a house in the near future, but his present apartment has been compromised for months and is kept under Soviet surveillance (possibly, even attempts to kidnap him are being prepared).

- (4) Some time ago, the case of HAUENSCHILD had been emphasized by the American side as a particularly typical example for the fact that numerous members of this organization are frankly supplying other-US agencies with information about this organization. Meanwhile, this case has been clarified in quite a different way. It may be considered as an example how, because of a certain competition, other US agencies are trying to work against this organization, to impair its reputation or to take over its connections. In the case of HAUENSCHILD, ECIC (supposedly Capt. HALIE) is concerned which attempts to win over interrogators of this organization known as especially efficient. The material, which has been collected by CIO about this organization during the past year, reveals that, at least at that time, CIO had not the tendency to support and protect this organization.

4
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- (5) Since 6 months, 27 (TONI) has requested frontier permits required for the communications of his sub-organisations with Austria. They could not be procured. Another solution was not found either.

The above quoted examples do not mean that the US officers working for this operation have not tried their best. All what has been done to serve the common goal and to support members of this organization is highly appreciated and it finds its expression in the close friendly and social relations existing between the US officers of the Composite Group and the leading members of this organization.

Our gratitude may be seen in the fact that an intelligence service has been established, the efficiency of which is recognized, and which simultaneously can be considered without exaggeration as the most unexpensive intelligence organization in the world. Although this organization employs foreign personnel, as seen from the American viewpoint, its loyalty toward the USA is secured to an unusually high degree, and this because of its development, conception, and personnel.

Within this organization, fate laid a two-fold responsibility on me. On the one hand, I am responsible for the leadership of the organization toward my German conscience as well as toward the USA. On the other hand, I am responsible for the fate of all members of this organization; some of them gave already their lives or fell into the hands of the Soviets.

The internal German conditions are such that the bulk of the German people, though declining Communism, nevertheless lost trust and hope and believe that the Germans will be the victims of the forthcoming events, whether they like it or not. Most of them are not in close contact with the Americans, as I am. At present, their confidence in the good will of the American policy is shaken because of the present circumstances. As I was told repeatedly, the confidence of many of our co-workers in our work is based upon the confidence in my person. They trust that I may find the right way within the frame of the given conception and goals of this organization which were agreed upon by the Americans. I make this responsibility a matter of conscience and would not like to risk my good name.

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84. (Continued)

SECRET/RELEASE TO GERMANY ONLY

In this connection, I have to emphasize that I was already reproached by several persons, including also the head of IGO, that I do not advocate persistently enough the interests of the organization and do not secure a just appreciation of all difficulties also on the part of the Americans. Within the frame of the given conception and of my responsibility conferred on me also by Americans, I have, therefore, to reserve the right to decide upon the necessary measures myself in compliance with your general consent. Whenever American interests are involved, I will, of course, regard your wishes. My goal and that of all of us is, by our work, which serves the entire Western civilization as well as German interests, to create in the future close ties between Germany and the Western World and primarily the USA.

6

SECRET/RELEASE
TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE TO GERMANY ONLY

Examples to Illustrate the Lack of American Support for the Project.

1. The procedure of transferring officers from this project prior to the arrival of suitable replacements and without prior orientation is greatly injuring the efficiency of our work. The transfer of Capt. WALDMAN has, for example, the following consequences:

- (a) Sub-headquarters 17 with its 7 sub-organizations will be without the support of an US field officer for the time being.

In the fields of operational field assistance, legalization, procuring of influx permits, accommodation, registration with labor offices, procurement of houses, a number of urgent pending cases will have a poor chance of a satisfactory settlement. In the area of Bavaria alone, 11 cases await settlement in the field of procurement of houses.

New cases arising in the above mentioned fields can not be dealt with at all.

Thus, the difficulties of the sub-organizations in being furnished with the pre-requisites for conducting their activities will tend to become greater and more critical from day to day.

- (b) The great amount of vital ties with the various US and German authorities which Capt. WALDMAN, during his former activity as a member of the US headquarters of this project, was able to establish and which he continued to strengthen while being assigned to Sub-Headquarters 17, will be jeopardized or not so effectively maintained. These are predominantly connections with the numerous agencies of the Military Government all over Bavaria, the various Regions and Sub-Regions of GIC, and with the German authorities, such as government agencies, including the Minister President of Bavaria himself, the police, billeting offices, officials in charge of refugee's affairs etc. Capt. WALDMAN, due to his great application, his adroitness in conducting negotiations, and - this

SECRET/RELEASE TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE TO GERMANY ONLY

applies of course particularly to German agencies - because of his command of the German language, had acquired the full confidence and cooperation of all these agencies.

The continuation of all these ties and their effective utilization would only have been possible if Capt. WALDMAN had been in a position to introduce an equally qualified successor to all these agencies. A successor who has not had the advantage of such an introduction, even though he masters the German language, will take a long time to cultivate all these connections with an equal effectiveness. A successor who does not speak German will fail in this attempt.

In any case, the difficulties resulting from the above situation for the activities of this project will be grave.

2. In spite of all the requests and proposals which have been submitted by me for almost 2 years, the question of the Operations Office within the US headquarters of this project has not been suitably solved. It was not before the fall of 1948 that such an Operations Office could be officially established. However, it was entirely inadequately staffed. At present, only one US officer, Capt. DAEMS, is assigned to this office. From the very beginning of his assignment, Capt. DAEMS has shown the best intention for cooperation. However, he does not have the required intelligence background, so that his efficiency is rising very gradually.

Unless assisted by a second well qualified officer in the Operations Office, Capt. DAEMS will face an insoluble task, due to the abundance of problems which he has to cope with every day.

Moreover, he has stated that he, on top of his previous missions, can handle only a very small amount of the duties formerly incumbent upon Capt. WALDMAN.

The grave effects of this situation on the activities of this project need not be commented on.

2

SECRET/RELEASE TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE
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3. For months, constant difficulties experienced in our very important BERLIN outpost have made me repeatedly point out that the assignment of an US officer to this post is indispensable. This urgent request has not been complied with.

The frictions experienced in our BERLIN outpost, difficulties which are predominantly due to the fact that the US sergeant assigned to this outpost - in spite of all his good intentions - does not wield the required authority, have caused a considerable delay in the forwarding of reports originating from the Soviet Zone of Germany.

4. In spite of repeated remonstrations and requests, also no officer was made available for the vital STUTTGART outpost. Thus, the missions of a field officer in the State of Württemberg-Baden are not attended to. The sub-organizations of our project working there, consequently, do not find the necessary support.
5. As already stressed before, my repeatedly submitted request that I be informed 3 - 6 months in advance concerning the amount of available funds has not been complied with. Furthermore, there is an increasing discrepancy between the EEI's forwarded by the superior US authorities and the funds actually placed at the disposal of this project.

Finally, there were still other facts, due to insufficient US support, which put this project into the greatest financial difficulties.

- (a) In due course before the introduction of the currency reform, I repeatedly pointed out that the required amounts of D-Marks would have to be available on the day the currency reform went into effect. The currency reform became effective on 22 June 1948. But only on 23 June, the first small amounts of the new currency (a total of 80,000 DM) were transferred to this project, which meant that the co-workers on the lowest level were without any valid German money for a period of 2 weeks. It was not before 25 June, after repeated remonstrations, that further 670,000 DM were made available.

Approximately 37% of the working capital of the project was not converted at all and thus was lost.

3
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84. (Continued)

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It is known to this project that the IS of another Western Power converted the entire working capital of its co-workers and had the required amounts of DM available prior to the promulgation of the currency reform.

(b) It repeatedly occurred that the granted money was made available only with considerable delay, so that it could not be transferred by the first day of a month to those levels of this organization where it was needed. Thus, for instance, funds for the month of January were not made available before 5 January, and could only be transferred to our sub-organizations by 8 January, which again means that our agents working in the front line did not get their money before the last third of the month. The consequences of such delays, i.e., loss of confidence and the missing of opportunities, must be particularly pointed out.

(c) Entirely unintelligible to me was the decision taken by higher authorities that the Quartermaster items, which had previously been supplied free of charge, are now to be paid out of the monthly fund allocated to this project. This measure means a further reduction of the sums available to us by 8 - 12 percent, quite apart from the decline of the rate of exchange of the dollar already mentioned above.

6. Also with regard to the delivery of goods, the organization has not met with the required support. Items which are most urgently needed for our field activities are usually received with delays of up to 4 weeks by the sub-organizations in charge of these activities. This happened particularly in June and October 1948 and in January 1949.

Thus, for instance, the goods allocated for January 1949 did not begin to arrive before 17 January 1949, and that only after repeated remonstrations. The remainder was delivered early in February, so that our sub-organizations were not able to meet their obligations for one full month. This leads to an unbearable loss of confidence, on the side of our sub-organizations, in the management of this project.

4

SECRET/RELEASE TO GERMANY ONLY

84. (Continued)

SECRET/RELEASE TO GERMANY ONLY

It is particularly unintelligible, if such delays occur in the supply of such a critical post as BERLIN. The computation of the supply to be distributed by our BERLIN outpost for the period of January thru March 1949 was submitted by 15 December 1948 to the US office of this project and forwarded from there to the competent agency of EUCOM. Likewise, on 15 December 1948, the order for the purchase of these goods together with the corresponding amount of dollars was forwarded to BERLIN. Allegedly, due to a mistake in the prescribed procedure, it was not possible to procure the goods allocated for January before the beginning of February. Further 8 days are required to deliver these items to the sub-organizations which need them. The man in the field has had to wait for them for 6 weeks.

7. Particularly conspicuous has the lack of support become in the field of operations.
 - (a) The procurement of living accommodations for German co-workers is a very slow procedure, and very often fails altogether, also in cases where it would have been technically possible.
 - (b) The procurement of permits of residence frequently meets with the greatest difficulties. For instance, every residence permit to Bavaria has been blocked by EUCOM for the last month.
 - (c) Also, the papers required for the activities of our co-workers can only be procured with the greatest frictions and delays.

It is particularly unintelligible that exit permits, with the exception of Switzerland, Austria, and Italy, can only be obtained after submitting special reasons for such requests. Apparently, Intelligence Division, EUCOM, is not aware of the fact that within the framework of our long-range intelligence activities directed against the SU and her satellites, courier lines also run through France, Spain, Greece, and the Scandinavian countries.

Repeated difficulties are also experienced in the procurement of frontier permits.

5

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84. (Continued)

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In our endeavors to obtain entry permits, Intelligence Division, EUCOM, does not show any cooperation at all. It has only been possible to obtain such permits for Switzerland and the US Zone of Austria through local arrangements of the 7821 Composite Group.

Internasional passports with the big stamps are only obtainable in Hesse. So far, it has not been possible to obtain these passports in Bavaria and Wuerttemberg-Baden. However, they are urgently required since such passports must conform to the state in which the required identity cards have been issued.

Also the required support in the procurement of falsified papers, for which the effective cooperation of the corresponding EUCOM outfits (HOECHST) had been promised, failed to materialize. For instance, the SED Party Pass was requisitioned from EUCOM on 23 October 1948; so far, no answer has been received.

At the end of December 1948, a requisition was turned in for the production of watermarked paper for the new Eastern Zone passport. An answer was promised, by 10 January 1949, if the required paper can be produced. Until today, we have not heard anything in this matter.

- (d) Also the problem of Air Transportation to and from BERLIN has not been satisfactorily solved. The courier connection is running without difficulties. Presumably the allocation of 4 more seats in military planes for instructors instead of assignment to AGA will constitute further improvement.

However, a good elastic solution, which would enable our co-workers to fly to BERLIN and particularly would allow them to leave the city by air with their luggage, an opportunity which is urgently needed, has not yet been found.

- (e) Various leaders of our sub-organizations are still without any telephone facilities. Some of the pertinent requests were made more than one year ago and have since been renewed orally and in writing. Thus, speedy further inquiries, which become necessary on account of corresponding requests by EUCOM, often can not be conducted.

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However, the lack of such telephone connections may have a disastrous effect in the event of a rapid development of the military situation in the Soviet Zone of Germany or in the satellite states. In such an event, the arranged communication of military reports, in code form, by telephone directly from the sub-organizations to the headquarters of this project, will not be possible with several sub-organizations.

8. Only very seldom did the intervention in denazification trials of co-workers, promised on principle by EUCOM, become effective, and still more rarely did it prove to be a help. Only with regard to this premise, the most important cases have been selected and reported. However, in several cases (e.g., ETZEL, HOEISEL, LEHNER), valid denazification verdicts concerning our co-workers were protested by Military Government by Error Reports. In a letter from the 7821 Composite Group, dated 9 September 1948, the attention of EUCOM ID Operations Branch was again drawn to some particularly difficult denazification trials of some of our co-workers. In spite of this step, the cases of EHRENHAUS and WONDRAK have taken a particularly unfavorable course in the meantime. Above all, in WONDRAK's case the confidence of this project in American help was very much shaken for the following reasons:
- (a) WONDRAK has proved a very successful worker in his capacity as leader of one of our sub-organizations.
 - (b) His own sub-organization had simultaneously learned that CIC has succeeded in helping much more operated persons who are working for CIC to obtain favorable results in their denazification trial.

In spite of all promised help, EUCOM has not done anything concerning the denazification of some key persons of this project who, for security reasons, cannot submit their cases to a public denazification procedure.

9. Although EUCOM has expressed its fundamental agreement with the emergency preparations suggested by this project, the practical assistance rendered in this case is not adequate. However, such support is particularly required because adequate material help alone will guarantee a safe foundation of these preparations.

7

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84. (Continued)

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The following examples may serve to illustrate this situation:

- (a) The fuel required for the withdrawal of the entire project to new locations has not been made available.
- (b) No binding pledge has been given with regard to transportation facilities for Compound 7821 Composite Group and Sub-Headquarters.
- (c) No decision has been reached with the British Military Government regarding our proposals for the shipment of co-workers from the British Zone of Germany.
- (d) No decision has been taken concerning the equipment with arms in the emergency case.
- (e) The requested supply with food for the entire project in the emergency case has not been complied with.
- (f) No decision has been reached yet concerning the evacuation of members of this project to the USA.

These neglects are particularly grave inasmuch as they endanger the entire objective of our emergency preparations, i.e., the continuation of the activities of this project in case of emergency.

On the other hand, also their detrimental psychological effects must not be overlooked.

10. Furthermore, our work is detrimentally affected by the fact that inquiries forwarded by us through the American headquarters of this project to Intelligence Division, EUCOM, are either not answered at all or only after repeated remonstrations. This may be illustrated by some recent cases:

- (a) On 21 September 1948, a request for the allocation of new cover firms for this project was submitted to Intelligence Division, EUCOM. After repeated inquiries we were at last informed, in December 1948, that we were to select the required cover firms ourselves.
- (b) This project asked the support of EUCOM in an attempt to get 3 men who were to work for us out of Sweden.

8

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84. (Continued)

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Allegedly, Intelligence Division, EUCOM, was in the possession of unfavorable information concerning these persons. We were promised further details, so that we could make a decision whether these men should be helped out of Sweden. However, we have waited in vain for weeks for a reply.

- (c) At the end of October 1948, we were ordered by Intelligence Division, EUCOM, to drop the anti-Bolshevik Russian General von GLASENAPP. Although the organization, on its own initiative, had already dropped von GLASENAPP, information concerning the reasons of this order was requested by us, since such information would have been of the greatest importance for the way in which the reorganization of the GLASENAPP group was to be effected.

Until now, the project has not received any information concerning the reasons which led to the above mentioned order.

There are many more examples which betray the lack of support on the side of Intelligence Division, EUCOM, in all fields of our activities. Their detrimental effect on our work is summarized as follows:

Constantly, we have to face recurrent difficulties with regard to both the activities of the project as such and particularly to the activities of our agents in the field, who every day risk their necks for the common cause.

We deeply deplore the declining confidence in the sincere cooperation of those US authorities with which the project as a whole and each co-worker as an individual works for the common cause.

The abilities of the German leadership of this project are subjected to mounting criticism and skepticism. More and more, the man working in the field assumes that this leadership does not adequately represent his interests in a way required by the work for the common cause.

I regret to be unable to assume the responsibility for such a turn of events any longer.

9

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85. [Critchfield] to Chief, FBM, "[Gehlen Organization]: Procedure for Handling Funds," 14 March 1949

SECRET/RELEASE
TO GERMANY ONLY

AIR

414
* [REDACTED]

MGMA-1020

Chief, FBM
ATTN: [REDACTED]
Chief of Station, Karlsruhe

14 March 1949

Operational

ODEUM [REDACTED] Procedure for Handling Funds

REF : [REDACTED] MGKW-1481

1. On or about the 1st of each month the Fiscal Officer of the Deputy Director of Intelligence, EUCOM, draws \$125,000 in U.S. green currency from the U.S. Army Finance Office at Heidelberg. This amount is immediately turned over to an officer-courier from the U.S. staff who carries the total amount, still in green currency, to Pullach near Munich.

ODEUM

2. The \$125,000 in green currency is turned over to the Fiscal Officer of the German staff by the Commanding Officer of the 7821 Composite Group (Col. Philp).

3. The German fiscal section has been and is engaged in numerous transactions involving monies and goods which have, as the ultimate end, the accumulation of a maximum amount of money available in the types of currencies required in operations. By far the largest percentage of the \$125,000 is converted, in [REDACTED] to DMs at the existing free rate of exchange prevailing in [REDACTED]. Some green currency is peddled at a favorable rate of exchange to German industrialists for their personal or business uses while on business trips in the U.S.A. or other areas where hard currency is necessary. Also, there is ample evidence that the Jewish Migration to Palestine, especially active by air lift the past nine months, has provided a constant green dollar market on which both DMs and US Scrip have become available at a favorable exchange rate. Through this type of manipulation the monthly funds have been stretched to the limit. For example, the 7821 Composite Group has been purchasing approximately \$35,000 worth of PX and Commissary items monthly for operational use. This bill, payable in US Scrip, has, in the past, been paid through the expenditure of roughly \$29,000 in green currency converted to \$35,000 US Scrip in the black market.

ODEUM

Switzerland

[Signature]
Copy to [REDACTED] 18/5/53
[REDACTED]

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85. (Continued)

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SECRET

4. As you can appreciate, this entire matter has been an extremely delicate subject and one on which the Army, though fully aware of the facts, has constantly and consciously turned its back. The present Commanding Officer of the 7821 Composite Group instituted a far more rigid accounting system and, during the past two months has received a reasonably detailed report, in terms of the actual current rates of exchange available in [redacted] or on the German black market. This report does not go forward to ODDI in Heidelberg. *Surtees*

5. The statement in my report indicating that the funds are drawn on a quarterly basis but made available to the Germans on a monthly basis is an accurate description of the intended procedure. In actual practice, the uncertainty of the availability of funds from month-to-month has resulted in a monthly drawing during the last three months.

Distribution:
2 - FBM
1 - COS
1 - File

[redacted]

James Critchfield

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[redacted]

86. Cable, SO to Karlsruhe, 16 March 1949

SECRET/RELEASE
FORM NO. 35
DEC 1947
TO GERMANY ONLY
OUTGOING CLASSIFIED MESSAGE
CENTRAL INTELLIGENCE AGENCY
SECRET 1949 MAR 16 16 31 PAGE No.

To: KARLSRUHE ROUTINE
FROM: SPECIAL OPERATIONS 16 MAR 49
CONFIRMATION: COPS (1) [REDACTED] OUT 78025
INFORMATION: ADSO (2-3)

Paraphrase Not Required. Handle as SECRET Correspondence per Pars. 51 (I) 60A AR-380-5

WASH 0670
[REDACTED] [] EYES ONLY
TO: KAHL [REDACTED] CITE: WASHA

[REDACTED] ODEUM
[REDACTED] INFORMS US THAT WE WILL NOT BE TAKING OVER [REDACTED] AND [REDACTED] Critchfield and []
FOR AT LEAST TWO MONTHS. IN VIEW OF THIS, [REDACTED] SHOULD BE ASSIGNED TO SOME ACTIVITY WHEREIN THEY CAN BE USE-
FUL TO YOU DURING THIS TWO-MONTH PERIOD. NO CHANGES CURRENTLY
CONTEMPLATED IN TEAM NAMED TO HANDLE ODEUM ON TAKEOVER.

SECRET/RELEASE
TO GERMANY ONLY

ROBERT A. SCHOW RELEASING OFFICER [REDACTED] ORIGINATING AND COORDINATING OFFICERS R. HELMS AUTHENTICATING OFFICER

TOD: 1711Z 16 MAR 49 **SECRET** COPY No. /
IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

87. [Critchfield] to Chief, FBM, "[Gehlen Organization]: Current Financial Situation," 21 March 1949

SECRET

**SECRET/RELEASE
TO GERMANY ONLY**

4/4 5686
[Redacted]
[Redacted]
MGMA-1032

AIR

21 March 1949

Chief, FBM [Redacted]
ATTN: [Redacted]
Chief of Station, Karlsruhe

Operational

[Redacted] Current Financial Situation

1. In order to give you a clearer picture of the effect of recent fluctuations in the DM/Dollar exchange rates I have obtained the following data on monthly expenditures and income during the period August 1948 - March 1949:

Expenditures in Dollars:

PX, POL, Food, Clothing,		
Office & Engineer Supplies.....	\$34,600	
Collection of Information.....	9,800	
Strategic Planning.....	5,500	
Forscher Activities.....	1,800	
Total Dollar Expenditures	\$51,700	Total \$51,700.00

Expenditures in DM Acquired Through Manipulation of Goods, Currencies:

Travel, Air Tickets & Misc.....	27.000
German Staff.....	30.000
Post Maintenance.....	22.000
Signal Section.....	33.000
Document Section.....	4.000
Liaison Office Frankfurt.....	3.000
Evaluation.....	46.000
Collection of Information.....	234.000
Forscher Activities.....	6.000
Insurances, taxes.....	12.000

Expenditures in DM Acquired from Direct Dollar Purchases:

Collection of Information....	1,420.000	
Total DM Expenditures	1,837.000	or \$91,800.00

copy to [Redacted] 18/5/53
[Redacted]

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87. (Continued)

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- 2 -

Total Monthly Expenditures (in Dollars):

\$51,700.00 plus \$91,800.00 equals \$143,500.00

Total Income:

Received from 7821 Composite Group.....	\$125,000.00
From Reserves and Business Profits.....	18,500.00
	<u>\$143,500.00</u>

2. It is noted that in all instances the exchange rate on which the computations in paragraph 1 above are based is 20:1 --- roughly that which prevailed in [redacted] in early December 1948. During the month of February the exchange rate has remained near the 10:1 level which is reflected not only in the fact that the \$71,000 that purchased 1,420,000 DM in December now buys only 710,000 DM but also in a comparative reduction in the number of DMs that can be acquired through manipulation of a given amount of goods and monies in Germany. Thus, disregarding the slight decline in prices that is becoming evident in the consumers market in Germany, [redacted] now finds itself approximately \$91,800.00 short of dollars to support operations at the December level.

OZEVIT

3. To meet this situation, Dr. Schneider has instituted a rather drastic program of cutting operations. Expenditures on strategic operations have been stopped completely. The program of bringing out and training W/T operators has been suspended. All sub-organization leaders are being constantly encouraged to cut to the bare minimum at every point. In spite of these measures the situation has been described by Dr. Schneider as being sufficiently critical to persuade Colonel Philp to advance on 15 March, \$35,000.00 out of the April budget allowance to get through to the end of the month of March. I have not been able to learn by what measures it is anticipated that this amount will be made up during the coming month. These actions must be observed in the light of Dr. Schneider's present attitude as reflected in [redacted] and [redacted] *MUNI-294*
MGMA-961

[redacted]
James Critchfield

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1 - File

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[redacted]

88. Executive Officer to Chief of Operations and Chief, FBM, "[Gehlen Organization]," 1 April 1949

SECRET/RELEASE
TO GERMANY ONLY

CONFIDENTIAL

1 April 1949

MEMORANDUM FOR: CHIEF OF OPERATIONS
CHIEF, FBM

SUBJECT: [REDACTED]

1. Colonel Schow has discussed this project with the Director, who has stated that no action whatever is to be taken in the field on this project until such time as the Director knows that General Clay is coming out. This is imperative because any commitment there on our part, in advance of General Clay's departure, will irreparably damage our overall position and particularly that of the station.

2. This is not to be construed as limiting or stopping the planning phase of this operation in the U.S. That should be continued. The personnel may be procured, trained, etc., since they can be used elsewhere if this operation falls through. Colonel Schow has stated, however, that he considers some of the proposed classifications too high, and that the number of positions and proposed grades should be studied further.

3. The funds requested will not be made available pending final decision by the Director, when appropriate. When and if that decision is finally made, the funds will be available forthwith.

FOR THE ASSISTANT DIRECTOR FOR SPECIAL OPERATIONS:

[Signature]
Executive Officer

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CONFIDENTIAL

212

89. [Critchfield] to Chief, FBM, "[Gehlen Organization]: Current Situation," 18 April 1949

OFFICIAL DISPATCH
SECRET/RELEASE

2 May 577

VIA: AIR SPECIFY AIR OR SEA POUCH TO GERMANY ONLY DISPATCH NO: [REDACTED] MGMA-1094

SECRET
CLASSIFICATION

TO : Chief, FBM [REDACTED] DATE: 18 April 1949
ATTN: [REDACTED]
FROM : COS, Karlsruhe [REDACTED]
SUBJECT: GENERAL - Operational
SPECIFIC - [REDACTED] Current Situation

1. On 7 April 1949, for the first time in more than ten days, I had conversations with Colonel Philp and several members of his staff; later I also talked with Dr. Schneider and Herdahl.

2. I had little to take up with Philp and our conversation, which lasted approximately 45 minutes, consisted primarily of a lengthy denunciation by Philp of the German attitude in general and Dr. Schneider's in particular. This development first became apparent on my previous visit late in March when Philp informed me that he had found it necessary, on the previous day, to inform Schneider in the bluntest terms, that it had become evident that the German Element was becoming increasingly uncooperative and that he no longer felt that Dr. Schneider exercised adequate control. Philp's specific accusations:

a. The German side strongly resists every effort to improve the standard of housekeeping (vehicle maintenance, accountability of funds and supplies, etc.).

b. The discipline with the sub-organizations is unsatisfactory, particularly with respect to the use of operational vehicles for personal purposes, the maintenance of vehicles and black market activities.

c. Dr. Schneider points out the need for more money while concurrently employing new people, especially if they happen to be close friends or relatives of top [REDACTED] personalities.

d. US Element field representatives are intentionally kept uninformed of numerous operational and administrative developments at the sub-organizations. (Lt. Richardson is to produce evidence that this attitude on the part of subordinates is in accordance with written instructions from the Chief of ICO.)

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89. (Continued)

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e. The German Element resists the good efforts of US officers working with subordinate elements of the German Organization. The Motor Pool at Pullach and the DFing station at Bremen are cited as examples.

f. Dr. Schneider utilizes operational necessity as the basis for justifying property requisitions and the furnishing of utilities and some supplies to individuals not connected with the operation and not visibly contributive.

3. My opinion is that the present difficulties stem primarily from divergent interpretation of paras. 1. a, b, c, and d of the basic Eucom directive. (See Tab B of Basic [REDACTED] Report, 18 Dec 48). ODEUM
There is no question but that the control exercised by the US Element over the methods and manner in which the German Element utilized funds and transportation prior to the arrival of Col. Philp left a great deal to be desired. However, the basic concept had been that complete responsibility for the performance of the German Element rested with Dr. Schneider and direct action to rectify specific conditions within the German Element that were unacceptable to the US Commander was to be done only through the US Commander-German Leader channel and not by direct intervention of members of the US Staff at subordinate points within the German structure. Shortly after his arrival Col. Philp systematically set about to improve the general standard of administration. This effort, which produced marked results, too frequently took the form of energetic action on the part of members of Col. Philp's staff dealing directly with some of Schneider's subordinates without regard for the command and staff relationship spelled out in the basic Eucom directive. Schneider has stubbornly held his ground on a number of minor issues in which this basic relationship and direct US intervention at subordinate levels of the German Organization have been involved. Philps, in turn, has interpreted these as a growing disinclination on the part of the Germans to cooperate. The net result is that atmosphere at Pullach is now characterized by a certain tenseness that was not evident when I first arrived there. Possibly balancing this is the fact that the US Element now has a much clearer picture of the administrative activities. At any rate an individual with a clear, unemotional and objective view of the situation at Odeum these days is a rare specimen.

4. The basic requirements to ensure the maintenance of the US-German Relationship on a workable basis appear to be the following:

a. Basic agreement between the US Commander and the German Leader on the interpretation of the contractual agreement.

b. A clear conception on the part of US and German staff members of the working procedures under this agreement.

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89. (Continued)

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c. An adequate number of US staff members present at all echelons of the German organization, particularly in the field, with complete access to all information and instructions to observe, assist and offer guidance but not to issue orders directly to their German opposite numbers. These US representatives must be capable of keeping the US Commander completely informed on all aspects of operational and administrative developments in the lower echelons of the German organization. His having to rely almost entirely on the German Element for information leaves the US Commander in an untenable position.

d. Guidance must be passed to the German Leader, in writing, by the US Commander on a continuing basis; such guidance to be based on instructions from above and information received from his US staff representatives in the field. This guidance must be firm and above all must be based on accurate and timely information received from US observers in the organization and through an active liaison with other US agencies in Europe which are in a position to report upon the activities of [redacted] as well as on matters of common interest. *ODEUM*

e. A friendly but constructive^{ly} observant and objective attitude on the part of the US Element.

5. Certainly one of the major causes of agitation is the present difficulty over the financial status. In this matter I feel that it is necessary that we immediately indulge in some advance planning. *ODEUM* [redacted] is still receiving its \$125,000 monthly. The difficulties growing out of the rising value of the DM have been reported in [redacted] *MSMA-1032* [redacted] has thus far reduced its commitment by approximately 15%; this process of cutting down continues. I have received the impression, however, that Schneider has an unfounded hope that the turnover to us will simultaneously mean the end of his financial troubles and an increase over the present \$125,000. I have made every effort to eliminate this view. On the other hand, eliminating operational commitments is, as we know, a difficult and sometimes expensive procedure which cannot be accomplished in a matter of days. Thus, I feel that we should assess the operation from our available information and attempt to formulate without further delay a planning basis which can be passed to Odeum at the time ~~that we take over.~~ *ODEUM* This should include an indication of which operations should be cut, which built-up, and which eliminated. Also, some indication of the anticipated financial arrangement (channel for handling funds, availability, etc) would be helpful for planning purposes. If we do not provide Schneider with this guidance his only alternative will lie in utilizing his own judgment since Eucom is reluctant at this stage of the game to make any decisions that will have far reaching effects. That pressure which is exerted by Eucom tends to prolong the life of collection efforts which have a particular and largely tactical interest to the Army. The deeper operations and particularly the program to build up radio communications to existing sources in the satellites is consequently suffering.

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89. (Continued)

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Schneider's requests to General Hall that guidance be given as to where cuts should be made if additional funds are not available have been met with the general attitude "We can't decide anything now because we are all expecting a decision in the near future".

ODEUM
6. [redacted] operation can, I believe, be divided into three general categories. The first would include the large number of operations that are run into the Soviet Zone of Germany. The second would include all operations based in Germany or [redacted] and extending into any of the satellites. The third category, including mainly operations which are now in the planning or developmental stage, would be limited to the strategic field. Our initial efforts should be concentrated on a detailed examination, operation by operation, of those falling in the second and third categories. For this reason I again go back to a slightly modified version of my original recommendation that we establish a fixed budget for [redacted] overhead, operations in the Soviet Zone of Germany and such specific projects as the Signal Intelligence program, and; that all operations in the satellites, as well as all strategic operations, be on a project basis. Operations into the satellite countries would be subject to the approval only of our [redacted] Representative who would be guided by general policy and budgetary allocations from Washington. Any arrangement which required these projects being submitted in detailed form to Karlsruhe or Washington would be prohibitive in terms of time and personnel both here and in Washington. At the same time, requiring them to be submitted to our staff with [redacted] will give us a degree of control and an insight into their operations which has been non-existent in the past. *ODEUM* *Austria* *ODEUM*

7. Strategic operations, particularly those which involve lines and activities through friendly or neutral areas, should be submitted to Washington in a degree of detail comparable to those operations of a similar type being developed by the Munich Operational Base.

8. In considering the cost involved in taking over [redacted], I believe that we must put the entire project on a sufficiently sound financial basis to eliminate much of the individual black-marketeering that is now being done by the members of [redacted] sub-organizations, in an attempt to keep operations and installations at a level which their present funds will not support. These individual instances of blackmarketeering are the cause of constant incidents with the German police and continually threaten the general security of the operation. *ODEUM* *ODEUM*

9. Several weeks ago Eucom ODI requested a budget estimate for the next year. The budget submitted was formulated on the basis of complete legality (including the purchase of all DMs from the US Finance Officer at the 30¢ rate) and the development of operations to meet all requirements which have been given to [redacted] by Eucom. The budget estimate resulting amounted to 12 million dollars. Needless to say, it was not submitted with the expectation that it would be approved. *ODEUM*

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89. (Continued)

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10. The problem cited in para. 8 of [redacted] becomes more vexing daily and must be given our immediate attention upon take over. If we are going into economic cover in Germany the present is obviously the time to buy when small businesses, originally capitalized on the cheap DM, are now collapsing in the face inability to repay loans with the increasing value of the DM. Schneider believes that much of [redacted] can be put into commercial cover without great outlay of cash and is now pushing a program of developing possibilities in this program. This appears particularly desirable from a security point of view since the present establishment at Pullach is becoming increasingly blown. This is a matter which will also receive the attention of our staff with [redacted] at earliest opportunity.

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11. With respect to the strength of our staff with [redacted], [redacted] indicates that four staff officers is the maximum we can expect in the immediate future. This would be sufficient if we could assume that the status quo with respect to the form and substance of [redacted] could be retained for a period of six to eight months while three case officers explore the details of [redacted] operations and the head of our representation to [redacted] consolidates their findings and his own observations into recommendations as to future disposition of the entire project. In light of current developments I do not feel that we can necessarily afford to follow this leisurely pace. The uncertainty that has characterized the guidance of project during the past six months has been damaging. The present widespread usage of MG designations for [redacted] field bases is daily becoming a thinner and less realistic cover arrangement. Continued maintenance of the entire [redacted] show in the large and very overt compound at Pullach is inviting publicity which is certain to be realized in the near future. Finally and most important in the long range view, the establishment of [redacted], vis-a-vis the Western German State and the German economy, in a position which will ensure its future is a matter which must immediately receive our attention. Not unrelated to this matter, is the appearance within [redacted] of certain manifestations of a future

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The development of an unsympathetic [redacted] would be a calamity to the numerous [redacted] operations dependent on lines through [redacted]. This is on our agenda for future discussion with [redacted]. None of these problems can be ignored much longer and all of them will require the attention of our staff with [redacted].

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12. It will be recalled that [redacted] is an organization designed to collect information exclusively outside of Western Germany. Notwithstanding this, Dr. Schneider has a wide range of sources which submit him reports on the developments within Germany which will effect the future of his organization. These reports are not turned over to the American Element and are not disseminated. I have reached an agreement with Schneider that these reports will be

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89. (Continued)

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made available to me to assist us in developing our course of action to integrate his organization into the political and economic framework of Western Germany. He understands that my agreement that these reports shall not be "disseminated" does not preclude them being made available to higher officials of the AIS. This will, I believe, prove a valuable byproduct of the [REDACTED] project.

ODEUM

13. Our relationship with Philp and his staff will be a matter which will have to be carefully considered. In a few very superficial discussions with Philp on this matter I have stressed the point that we will not expect to take over any of the existing duties of members of his staff and that our main effort will be in the operational field. Tentatively, I plan that certain aspects of our work will remain strictly in our own circles and that other matters will have to be open to Philp and his staff. All of our organizational traffic should be kept in our office and any of our material I make available to him will not be in its original form. Reports prepared by our representatives in the field will deal separately with administrative and operational matters and the matter of passing these to Col. Philp and his staff will be determined by the content of the report in each case.

ODEUM

14. While I am convinced a staff of four will be inadequate to staff [REDACTED] beyond the first few months, I am not prepared to make a specific recommendation either as to the minimum number of personnel that will be needed nor as to the specific jobs in which I can visualize we will require our representatives. Because of my very strong conviction that the success we will make of this project will depend largely on the staff that we can make available, I will continue to give closest attention to the problem of developing an adequate staff.

ODEUM

15. Periodically I shall attempt to summarize the developments that are evident from my contacts with the US and German Elements of [REDACTED]. By and large these will be informative in character and will furnish a background against which future specific recommendations will be made. The exception to the informative character of the material in this particular letter is, obviously, my request that we give immediate consideration to the question of the manner and extent in which we contemplate financing the entire project. Your views on this subject at the earliest opportunity will be appreciated.

[REDACTED]

James Critchfield

Distribution:
2 - FBM
1 - COS
1 - File

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90. Robert A. Schow, ADSO to Director, CIA, "EUCOM Support for the 7821 Composite Group (Operation Rusty)," 21 April 1949

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21 April 1949

MEMORANDUM FOR: The Director, Central Intelligence Agency

SUBJECT: EUCOM Support for the 7821 Composite Group
(Operation Rusty)

In order to insure a smooth and efficient turnover of the 7821 Composite Group from the control of the European Command, U. S. Army, to the Central Intelligence Agency, it is necessary that EUCOM continue on the present basis for such time as may be required the administrative, logistical, and personnel support of the aforementioned Group. The nature of the support required is set forth below:

I. Personnel

A. All Army personnel presently assigned to the 7821 Composite Group, should remain on duty with that organization under the control of the CIA representatives assigned to the project for a period of at least one year, or until such time as this Agency can properly staff the 7821 Composite Group. The Army personnel remaining is to include the ten (10) officers and twenty-five (25) enlisted men presently on duty.

B. Should the transfer of any of this complement be required during the above-mentioned period, qualified replacements should be furnished by the European Command, U. S. Army.

II. Logistical Support

A. All supplies should continue to be issued on the basis of the effective 7821 Composite Group Table of Organization and Allowances as modified to date.

B. All supplies, such as rations, gasoline, etc., now furnished gratuitously, should continue to be so provided.

C. Prior to the transfer of the 7821 Composite Group to this Agency, a decision should be rendered by the European Command, U. S. Army, re the payment of Quartermaster items already issued to the Group and for which no payment has yet been made.

D. Upon the transfer of the organization, a statement should be issued by the European Command, U. S. Army, setting forth all outstanding debts of the 7821 Composite Group. Payment of such debts should be made by the European Command, U. S. Army, if funds are available.

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90. (Continued)

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III. Housing

A. All real estate, including offices, dwellings and storage places, presently utilized by the 7821 Composite Group should be transferred to the control of the representatives of this Agency.

B. Rent and utilities should continue to be paid by the German economy.

IV. Transportation

A. All vehicles, including military vehicles, those drawn from the Theater Ordnance Officer, and those purchased by the 7821 Composite Group, also should be transferred with the Group.

V. Communications

A. Communications facilities presently provided by the European Command, U. S. Army, should continue to be made available to the 7821 Composite Group until such time as this Agency can install its own facilities. This applies to communications within the American Zone of Germany only.

Robert A. Schow
Assistant Director
Special Operations

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91. [Critchfield] to COS, Karlsruhe, "Organizational and Individual Security Problem
[Gehlen Organization] Staff," 4 May 1949

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MGMA-1138
[REDACTED]

Courier

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COS, Karlsruhe

EYES ONLY
18/5/53

4 May 1949

Munich Operations Base [REDACTED]

James Critchfield

Organizational and Individual Security Problem

[REDACTED] Staff

ODEUM

ODEUM

1. The maintaining of organizational and individual security vis-a-vis our connection with [REDACTED] promises some difficulty. The immediate aims of our security program are:

a. To conceal the identity of the US Agency operating [REDACTED]

ODEUM

b. To conceal the connection with the [REDACTED] in Munich, Karlsruhe and elsewhere.

Department of the Army Detachment

c. Maintenance of the personal security of career intelligence staff personnel assigned to [REDACTED].

ODEUM

2. Unfortunately, the identity of our organization was the byword in all discussions among the high level US Army and German personnel at the time our investigation began in November 1948. Subsequent indoctrination of both the US and German staffs has shown material results. At our request, both Schneider and Philp have recently assembled their staffs and given additional lectures on this general subject.

3. For security reasons alone, our entrance into [REDACTED] will, except in the top staffs on both US and German sides, be done as inconspicuously as is possible. Only the top German staff will be advised of the change in control. Both German and US Staffs have been instructed to carry on an active campaign to ensure that the change is not passed down to a subordinate level where possibility of compromise is greatest.

ODEUM

Critchfield

4. [REDACTED], whose real identity and basic affiliations are unquestionably known among some of the top German and US staff personnel, will continue to utilize a liaison cover within [REDACTED] and outside of the project will remain identified by Munich.

ODEUM

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Copy to [REDACTED] 18/5/53

91. (Continued)

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Military Post agencies as a member of the [redacted] Department of the Army Detachment
[redacted] Overt affiliation with [redacted] would immediately reveal ODEUM
to numerous individuals with whom [redacted] has frequently done business Critchfield
[redacted] as a member of [redacted] OMGB. Department of the Army Detachment
that there had been some local consolidation of intelligence organizations. [redacted] will utilize his real name within the [redacted] staff ODEUM
and the assumed name [redacted] that was used with subordinate agencies during field trips during the original investigation.

Critchfield

5. All other staff members should, in general, utilize a cover name within the German and US organization with a clear understanding on the part of the US Staff and the top German staff that it is an assumed name for security purposes. As a rule it is believed preferable that real identities be used outside of [redacted] within the Munich community. This practice conforms to that of 95% of the German and American personnel presently in the organization. ODEUM

6. With Munich Post Agencies (billeting, clubs, etc.), staff members must overtly be connected with either the 7821 Composite Group or the [redacted]. The former is almost mandatory for married staff members who will be provided billets, obtained by the 7821 Group, in the Solln and Pullach areas. The question of mail addresses and telephone listings further complicate this problem. In each instance and prior to his first contact with [redacted], the individual's complete cover story will have to be carefully worked out jointly by [redacted] and the individual staff member concerned. In each case, any necessary validating orders and AGO cards will be requested from Karlsruhe. We will also look into the possibility of paper assignments to non-intelligence post agencies. On 3 May, the question of individual cover was explored in detail with [redacted] and [redacted]. Their views and the experiences of [redacted] during the [redacted] investigation and subsequent contacts with [redacted] are the basis for a tentative general outline of the cover plans to be followed by single and married staff members assigned to the [redacted] staff (Incl. 1). ODEUM

Department of the Army Detachment

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7. [redacted] assistance in developing a secure communications system will be appreciated. [redacted] occupies a quarter of a page in the new Munich Telephone Book. All calls go through Munich Military 2321, the compound switchboard. The security of this line is questionable. Within the compound telephone conversations are considered secure; the basis for this assumption is unknown. Constant telephone traffic between Pullach and Karlsruhe, comparable to that carried on between most operational bases and Karlsruhe, would immediately reveal the connection with [redacted] to the [redacted] German switchboard operators as well as to any agency tapping the 2321 line. We will request Philp to establish a direct telephone line in one of our restricted offices (off limits to all but our own staff personnel). This phone will be registered under our cover designation and utilized for all outside calls in which our security aims are involved. The feasibility of this solution will be examined more in detail in the future. ODEUM

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91. (Continued)

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TO GERMANY ONLY

8. Any transportation assigned to the [redacted] Staff must have license plates not previously utilized at an operational base. In this respect, social and business contacts with MOB must be carefully considered and consistent with the security situation. ODEUM

9. In general, too frequent appearances at clubs and other public social events with the present US Staff members will be avoided; particularly with those that do local representation work with Munich Military Post, Military Government, as a member of [redacted]. ODEUM

10. Our staff will be situated in a substantial one-story, stone building, just inside the only gate through which one can enter the compound. The compound is surrounded by a high wire fence and a careful checking system is employed at the main gate. The German staff member who acts as commandant of the post is responsible for the security of the entire installation and frequently conducts security tests to test the general security of the compound. Our building is being provided with substantial iron bars on the windows. The offices in which our files and funds will be kept will be provided with separate locks on the doors. We will be requesting combination padlocks for this purpose. The entrance to the building will be locked at night by the US military guard who will be on duty in the building and at our telephone extension from the time we leave in the evening until the offices are opened in the morning. The combinations (or keys) for our offices and files will be known only to our own personnel. Our offices will be arranged to ensure that the code room, the file room and the office of our own staff secretary will be off limits to all but our own staff personnel. Correspondence internal to [redacted] and open to both German and US Military Staff personnel will be kept in separate steel filing cabinets located in the less restricted offices of our staff and will be maintained by a German secretary provided by the organization. ODEUM

ODEUM - 11. During one of my recent discussions with Philp on the subject of security, he reported that the impending turnover of [redacted] to our organization is a much discussed matter up at Heidelberg. If this is true, the Deputy Director might be willing to take this up at a staff conference in the near future. It will be impossible to conceal the takeover from them since many of them are now concerned with staff supervision of [redacted]. The only other alternative thus appears to lie in recruiting the Deputy Director's assistance. ODEUM

[redacted] James Critchfield

- Distribution:
2 - COS (action and info)
2 - FBM (info) ✓
1 - Munich [redacted] ODEUM

Inclosure - 1: "Individual Cover for Staff Members Assigned to [redacted]". ODEUM

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91. (Continued)

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MGMA-1138

Individual Cover for Staff Members Assigned to [REDACTED] ODEUM

1. Since the designation of present military cover for [REDACTED] ODEUM is probably well compromised within the Munich Post, it appears undesirable from a long range security point of view that our staff members be assigned to that organization. Since connection with [REDACTED] DAD in Munich is also to be avoided, a cover unit designation for the assignment of all of our staff personnel assigned to [REDACTED] is being obtained. This cover will be utilized for the following general ODEUM purposes:

- a. Official designation on orders.
- b. Mail address.
- c. Personal documents.
- d. Registration with all local agencies.
- e. Cover story for casual contacts outside of business.

2. Our restricted telephone (direct line out of compound) will be listed under this cover designation and our secretary will be briefed to answer all incoming calls accordingly. All calls, local or long distance, to [REDACTED] units in Germany will be made over this phone and booked under this cover designation. DAD

3. Since it is contemplated that most married staff personnel will be assigned quarters in the Pullach area, social contacts with US and German families living in or near the compound and connected with [REDACTED] can be expected. Within [REDACTED] circles this offers only the usual personal security problems. References to previous intelligence experience in the Theater and during wartime should be vague, especially with respect to recent assignment in the Theater. Previous connection with [REDACTED] cannot be disclosed. DAD

4. Single staff members will secure their billets through Munich Post without the assistance of the US Staff at [REDACTED]. It appears impracticable for Staff members requiring family billets to procure satisfactory billets without the intervention of the US [REDACTED] Staff. This is a calculated security risk which appears unavoidable. Since your orders presented to obtain billeting will contain our cover unit designation and you will obtain your billet through a known [REDACTED] Staff officer who has dealt with the billeting officer over an extended period of time, the latter will associate [REDACTED] with cover organization. All other services (commissary, telephones, utilities requests, etc.), should be procured by the staff member himself and not in the company of the [REDACTED] Staff officer, who will assist you with the procurement of a house. ODEUM

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Incl. to [REDACTED]

MGMA-1138

pseudonyms
5. For operational purposes within [REDACTED], staff members will utilize selected [REDACTED]. This need not be supported by an AGO card, or other personal documents. German and American staff members will assume it is an assumed name; a universal practice among the German staff that live and work in the compound.

ODEUM
6. Since the entire structure of the German organization is designed to provide a "sanitary security belt" between the Pullach Organization and field units a third name must be utilized for contacts with the sub-organizations. This name must be supported by an AGO card for purposes of identity in situations involving sub-organizational personnel.

7. If possible, real name and identity documents and our cover organization should be utilized in any incidents with US agencies which might result in official correspondence. All incidents will be immediately reported to the Chief of [REDACTED] Staff.

ODEUM
8. Appearances in company of well blown US Military Staff members of [REDACTED] will be kept to a minimum.

ODEUM
9. At German-American social functions within the organization, real names must be utilized. Incidents at such parties arising out of confusion of names are extremely common in view of the complicated personal situation in which most of the German staff members find themselves. Pseudonyms will consistently be employed in internal [REDACTED] correspondence and telephone conversations.

ODEUM
10. License plates utilized on trips to sub-organizations will be removed at an intermediate point prior to return to headquarters. This process will be reversed on leaving the compound to visit sub-organizations. Registration cards to correspond with the plates must be carried.

ODEUM
11. The complete cover story, of each individual staff member assigned to [REDACTED] will be reduced to writing and kept in a separate individual security file. It will be necessary that other members of the staff be conversant with the details of the cover stories of all other Staff members.

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SECRET



92. Headquarters, EUCOM to Chief of Staff, US Army Director of Intelligence, 6 June 1949

~~TOP SECRET~~
(Classification)

INTERNAL ROUTE SLIP

HEADQUARTERS, EUROPEAN COMMAND

FILE NO: 350.09 (GID/OPS/IS)

SUBJECT: Transmittal of Correspondence

DATE: 9 June 1949

(Number each memo or minute consecutively. Fill in each column, signed legibly draw a line across the sheet. Use entire width of sheet for long memoranda.)

No.	From	Pass to	Date	HAS THIS PAPER BEEN COORDINATED WITH ALL CONCERNED?
1	DD/ID Composite Group	CO, 7821	9 June 49	<p>1. Inclosed herewith is 1st Indorsement to basic letter from DI, GSUSA, Subject: Administrative and Logistical Support of TIB by CINCEUR, dated 10 May 1949, and our cable No. SX-2983 which changes the first sentence of Paragraph 1A of the 1st Indorsement.</p> <p>2. Inclosed correspondence to be retained in your files.</p> <p>FOR THE DEPUTY DIRECTOR, INTELLIGENCE DIVISION:</p> <p><i>R. E. Kilzer</i> R. E. KILZER Capt WAC Asst. Control Officer</p>

2 Incls a/s
HPM/bd/Heid 04255

REVIEWED: 05 May 49
DOWNGRADED TO: S
REVIEWER: []
CL REASON: ISC
DECL ON: 05 May 49
DRV FROM: 60V 4-82

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92. (Continued)

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COPY

350.09 (GID/OPS/IS) 1st Ind
Headquarters European Command, APO 403, US Army

TO: Director of Intelligence, General Staff, United States Army,
Washington 25, D.C.

1. Ref. Par. 1.

a. Transfer of 7821st Composite Group to the representation of CIA will be made on 0001 hours 1 July. This date is selected because the Department of the Army has obligated funds for the support of 7821st Composite Group through 30 June. Beginning immediately the CIA element will establish offices at 7821st Composite Group Headquarters.

b. The representative of the Director of Central Intelligence has agreed to supply DI CINCEUR with all intelligence reports produced by 7821st Composite Group and to request guidance in all matters which might impinge on or affect the security or political position of the Armed Forces or the German civil government.

2. Ref. Par. 2.

a. Ref. Par. 2.a. Concur.

b. Ref. Par. 2.b. (1), 2.b (2). Concur with the understanding that this support will continue indefinitely with the 7821st Composite Group's successor, except as the CIA representative will approve reductions.

c. Ref. Par. 2.b (3), 2.b (4). Concur.

d. Ref. Pars 2.b (5). While every effort will be made to close out accounts prior to the transfer date, it is anticipated that a number of outstanding accounts will not have been presented for payment prior to 1 July 1949. In order to close these obligations, a fund presently being held by the Composite Group will be used for the liquidation of all obligations entered into prior to 1 July 1949 except for certain purchases made during June for use after 1 July which will be earmarked for payment by the CIA representative.

e. Ref. Par. 2.c., 2.d., 2.e., 2.f., concur.

C. R. HUEBNER
Lieutenant General, U.S. Army
Acting Commander-in-Chief.

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92. (Continued)

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COPY

HQ EUROPEAN COMMAND
STAFF MESSAGE CONTROL
OUTGOING MESSAGE

TOP SECRET

DEFERRED

TO : CHIEF OF STAFF, US ARMY FOR DIRECTOR OF INTELLIGENCE
FOR INFO : CINCEUR, BERLIN, FOR DIRECTOR OF INTELLIGENCE
FROM : CINCEUR SIGNED HUEBNER
REF NO : SX-2983 CITE: EGGID TOO: 061249Z

Reference paragraph 1A of our first indorsement to your letter dated 10 May 1949, subject: Administrative and Logistical Support of TIB by CINCEUR. General IRWIN and Mister STEWART of Central Intelligence Agency have concurred in changing first sentence to read "In order to facilitate their control and direction of group operations, physical transfer of 7821 Composite Group to the representation of Central Intelligence Agency will be made on 0001 hours, 1 July 1949".

ORIGINATOR : DD/INT AUTHENTICATION: C. J. LETZELTER
INFORMATION : SECY GS Lt. Col. GSC
Tel. 02538

06 JUNE 49 1315Z DHD/dhd REF NO: SX-2983 TOO: 061249Z

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/1/49

93. [Critchfield] to Chief, FBM, "Basic Agreement with [Gehlen Organization]," 13 June 1949

OFFICIAL DISPATCH

23/6

VIA: Air
SPECIFY AIR OR SEA POUCH

DISPATCH NO.:

~~400117~~
MGLA-8
MGLTS-1

~~TOP SECRET~~
CLASSIFICATION

DATE: 13 June 1949

TO : Chief, Foreign Branch M -
FROM : Chief of Station, Karlsruhe
SUBJECT: General - Operational
Specific - Basic Agreement with
REF :

~~TOP SECRET~~
CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Cancelled
Changed to Secret
Date 1-1967

ODEUM

1. As has been previously reported, the relationship of the US Army with [redacted] has from the first been based on a contractual agreement originally reached between Dr. Schneider and General Sibert. This agreement was referred to in the basic EUCOM Directive of 13 October 1948 (see Annex B - [redacted]). Prior to that time the substance of the agreement had not been reduced to writing.

ME-MA-878

2. It is quite clear that we must renegotiate with Dr. Schneider the basic agreement which will govern our immediate as well as our long range relationship. Preliminary discussions between Dr. Schneider and [redacted] have taken place. A tentative draft by [redacted] was utilized as the point of departure for such discussions, with the full understanding by Schneider that the points covered originated with [redacted] and that discussions at this time are completely exploratory.

Critchfield
Critchfield
CRITCHFIELD

3. Schneider concurs without reservations with the agreement as far as it goes, and suggested that two other basic points be included to cover matters of interest to him personally and as the responsible leader of the German organization. These two points in substance are:

(a) That at such time as a financial expert from the American organization is placed with his staff and an exact accounting procedure is adopted, he, as the senior member of the German organization, will retain the prerogative to expend a nominal monthly fee, \$3,000.00 for example, as payments to or in defrayment of expenses of

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93. (Continued)

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certain individuals with whom he may be in contact on a personal and confidential basis. These expenses would in each case be covered by a voucher signed by him, indicating that the funds had been spent in furtherance of the organizational interests;

(b) That the US Element agree that from funds allotted to the organization, payments consistent with individual needs and the cost of living will be paid on a monthly basis to the dependents of agents who have been killed or captured in the execution of missions assigned by this project.

4. On (a) above, I assured Dr. Schneider that if it develops in the future that an exact accounting procedure should be instituted to cover the expenditure of funds originating with the American side, I felt sure that any reasonable expenditures to which he would individually certify would be completely acceptable to us; and, that the compensation payments appear to be quite consistent with our own policy in such matters.

5. While there is no urgency to the conclusion of such an agreement, a clear understanding of these points must be reached to insure not only a smooth working relationship between our own  staff and the German staff, but also to provide the basis for Washington's direction of our own staff with  ODEUM

6. The draft covering the points I have discussed with Schneider is attached. If it appears to play rather heavily on the ideological motivation of this project, it is only because this aspect is in fact a most vital factor in our relationship with the Germans as well as in their own future relationship with the German Government. I will delay further discussions of this subject until Washington views have been received.



James Critchfield

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2 - FBM w/attachment
1 - COS w/attachment
1 - POB w/attachment

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93. (Continued)

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BASIC AGREEMENT

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1. The basis for US-German cooperation in this project lies in the mutual conviction of the respective parties that increasing cooperation between a free and democratic Germany and the United States within the framework of the Western European Union and the Atlantic Community is indispensable for the successful execution of a policy of opposition and containment of Communist Russia.
2. The development of a long range and effective intelligence organization directed solely against Communist Russia and her satellite governments is the broader purpose of US-German cooperation in the establishment of this project.
3. It is clearly recognized that members of the German staff of this project are acting first and foremost as German nationals working in the interest of the German people in combatting Communism by contributing their efforts and accumulated experience in the field of intelligence against Communist Russia.
4. To protect this basic premise, it is agreed that under no circumstances will any German member of this project be expected or permitted to conduct intelligence activities against, or report on, German activities in other than Soviet occupied areas of Germany. The exception to this will be with respect to operations against German nationals acting in the interest of a communist power in affairs which threaten the security of this project.
5. The eventual acceptance and support of this project by the German government is recognized as a prerequisite to the continuation of this project beyond the time when US Occupational Forces terminate an active role in local German governmental affairs. Thus it is clearly recognized that the senior US representative and the German Director, each acting in close coordination with the other, will have to make a positive effort through channels available to him, to ensure that the acceptance and support of this project by the German Government is obtained.
6. It is recognized that as the German Government is strengthened and assumes a more independent role in internal German affairs and as Germany assumes her position as a sovereign state with reestablished normal diplomatic and trade relations abroad, the working relationship of the US and German representations in this project will have to be periodically re-examined

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TO GERMANY ONLY

93. (Continued)

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and modified to conform to the situation. Until such time the following specific relationship will be the basis of the working relationship between the US and German elements of the project:

a. The missions given the project shall be consistent with this agreement and shall originate with the US representative.

b. All direction emanating from the US side shall be passed directly from the senior US representative to the German Director; information reaching the German organization at subordinate levels through US staff members will not constitute the basis for authority for any action not specifically authorized by the German Director.

c. The responsibility for control, direction and discipline within the German organization will rest completely on the German Director.

d. US personnel working with the German Organization will be in an advisory and liaison capacity.

e. All activities of this project in friendly or neutral countries will be reported to the US staff in detail and under complete US control.

f. All connection with the Intelligence Services of friendly or neutral countries will receive prior clearance and be under US control.

g. Complete details of operational activities will be available to the US staff.

h. The US staff will, through its connections in the intelligence field, render maximum operational and technical assistance to the German staff.

i. In financial matters the closest cooperation will be required. Detailed financial records will be maintained on the disposition of all funds provided by the US for the support of the project. These records shall be available to the US senior representative or his designated financial specialist.

j. Overhead expenses will, as soon as practicable, be reduced to a detailed semi-annual or annual budgetary basis with budgetary estimates submitted not less than three months in advance.

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TO GERMANY ONLY

93. (Continued)

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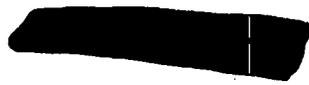
-3-

k. All operations outside of Germany will, as soon as practicable, be reduced to a project basis with funds provided for each project as approved and on the basis of continuing review of operational details and production.

7. Both parties realize the success of this project must be based on an attitude of complete trust and cooperation and adherence in spirit as well as in word to the terms of this agreement. Therefore, each party will continually review the terms of this agreement with a view toward immediately initiating discussions pointing toward the modification of the terms of this agreement should new factors and changing situations so dictate.

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W



94. [Critchfield] to Chief, FBM, "[Gehlen Organization] General Policy," with enclosures, 7 July 1949

FBM
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#1
OFFICIAL DISPATCH

VIA: *Air* [redacted]
SPECIFY AIR OR SEA POUCH

DISPATCH NO.: *MGLA-80*
[redacted]

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CLASSIFICATION

DATE: 7 July 1949

TO : Chief, Foreign Branch M
FROM : Chief of Station, Karlsruhe
SUBJECT: General - Administrative
 Specific - [redacted] General Policy
REF : *ODEUM*

CENTRAL INTELLIGENCE AGENCY
CLASSIFICATION
Classified
Changed to Secret
BY AUTH [redacted]
Date *15 MAR 1951*

1. On 15 June 1949 I handed Dr. Schneider a policy letter (Incl. #1) indicating the current [redacted] mission and broadly outlining what appeared to be some of the causes of present and past difficulties of the project which should be avoided in the future.

2. On 22 June 1949 a draft copy of Schneider's reply to this letter was brought to me by Schneider for discussion. (Incl.#2) This reply, with slight modification in form and style, was officially delivered to [redacted] on 27 June 1949.

ODEUM [redacted] 3. In view of the conversancy of the Washington staff with [redacted] and its past history, I feel it superfluous to offer comment on the background of my letter or Schneider's reply.

[redacted]

James Critchfield

Incl:
2 - #1 - 15 June 1949 Memorandum to Dr. Schneider from [redacted] *Critchfield*
2 - #2 - 22 June reply of Dr. Schneider with 19 attachments.

Dist:
2 - FBM w/1 Incl.#1 and 1 Incl.#2
1 - COS w/1 Incl.#1 and 1 Incl.#2
1 - POB w/1 Incl.#2 w/o annexes

approved by SB

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CLASSIFICATION

[redacted]
COPY No. *1*

2. 1949
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94. (Continued)

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Incl. #1

15 June 1949

Memorandum to Dr. Schneider

1. The present financial crisis, with all the implications so clearly described by the organization leaders on 30 and 31 May, goes back, as I understand it, to the original currency reform in the summer of 1948, at which time no provision for the exchange of a vast number of Reichsmarks was made. The adjustments made by your organization to meet the problems resulting from the currency reform were beginning to show some effect when in December 1948 the value of the Deutschemark on the free market began its drastic rise which has had catastrophic results for this organization. Since December it has become increasingly apparent to all that the financial situation was becoming steadily worse and that if support were to continue at the level of \$125,000 a drastic reduction would have to be made.

2. A reduction resulting from specific decision as to where, when and how the project would be cut should have originated with the American side. On the other hand, the German side, having given the US side adequate notice that a cut was imminent in view of the increasing value of the DM, could have taken decisive action. To a limited extent, even the suborganization leaders could have taken actions to cut down in the face of dwindling financial support.

3. On the American side there has been no participation in, and thus little understanding of, the complex operational aspects of this project. An understandable inclination on the part of nearly all representatives of American agencies, each with a particular interest in the production of this project, to constantly encourage the increase in the level of production in the field of his particular interest has been a second factor contributing to expansion of the operation within the limits of what the black market would bear. Finally, the period of uncertainty since November 1948 when it first became apparent that a change in US sponsorship was a definite possibility has been marked by the unwillingness of any US official to take decisive action to alleviate the increasingly chaotic financial situation. The record is clear that no decisive action on the US side was taken.

4. On the German side the impetus to continue operations at a maximum level by straining all resources procurable by manipulating goods and currencies on the black market can be attributed primarily to the commendable desire on the part of the members of your organizations to increase the quality and

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ENCLOSURE -1

94. (Continued)

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quantity of the final product--produced intelligence on the USSR. To a limited extent it also appears that this expansion was an unplanned and uncontrolled growth based on the receipt of EEIs from various US agencies. EEIs should not, in my opinion, have been considered the basis for expansion or re-organization since the research type of individual who originates EEIs is completely uninformed on either the operational capabilities or the financial limitations of the organization to whom he directs his EEIs. Trends discernable from the EEIs could, on the other hand, have been a clear indication to both the German and American sides that discussions as to where, when and how cuts or expansions should be initiated were in order. Decisions thus reached would probably have been consistent with the capabilities of the organization and its available means--financial and otherwise.

5. In the final analysis, the historical background of the situation is not immediately relevant to the problem at hand--that is, finding a solution to our present problems and establishing your project under its new sponsorship on a firm operational and financial basis. I have been informed by my headquarters that the present sum of \$125,000 monthly will continue to be the level of support. The sum of \$375,000 in hard currency will be provided on or before 1 July for the first quarter of the new fiscal year. This, to the best of my knowledge, represents the total financial support that we shall receive during this period, and I consider it quite unsound that I should give you encouragement to continue the present scope in size and activities of the organization by creating any false hope that an increase in financial support will be forthcoming. To do so would merely be a continuation of the unsound policy that has brought about the present critical situation. Therefore, I urge you to make every effort to salvage the best elements of your project and drop personnel under the most desirable circumstances possible within your admittedly inadequate financial means.

6. My original recommendation in November that the financing of this project be modified to a system under which the overhead and Sovzone operation would be on an annual or semi-annual planned budgetary basis, and that all operations, strategic and otherwise, in the satellites and other areas bordering on the western USSR be placed on a project basis, was without respect or relationship to the figure \$125,000. At that time I visualized a situation which would, for example, make it possible to determine that some such amount as \$30,000 could be budgeted for monthly overhead expenses; \$70,000 budgeted for Sovzone operation; and that, utilizing the \$25,000 to cover

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94. (Continued)

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our period of change-over, we put other operations on a project basis, each subject to approval in Washington and subject to continuing review upon which the financial support of the specific operation could be individually and periodically determined. The financial situation which has developed since that time tends to throw a new light on the entire financial situation, and we now find ourselves in a situation where your supporting funds are worth less than 1/3 of their December value with the result that your Sovzone collection, which has in the past utilized approximately 60% of your funds would now - even if substantially reduced - still utilize the entire \$125,000 monthly.

7. You are well aware of my conviction that our mutual interests in operations to the East from Germany can best be served by such operations being described in detail in project form for presentation to Washington and consideration on the merits of each individual operation. I wish to ensure, however, that no misconception arises from my recommendation that operations outside of Germany be put on the project basis. The present level of support is \$125,000 and funds for these projects must come from this sum. It is recognized that the limited funds will be reflected in the fact that various projects will be shown at various stages of development and productively dependent on the time they have been going, the skill of the persons controlling and participating in the operation and the funds that have been made available to support the operation. Washington will be able to consider all of these factors in determining the immediate as well as the long range potentialities of each operation, and we will be assured that the Washington decision made in any case results from a detailed consideration of the operation on its own merits and not as a result of categorical decisions.

8. I fully appreciate the difficult personal situation which confronts you during this period of liquidation of large elements of the project which you have developed through great effort during the past few years. It is recognized that the reputation of the leadership of the project will be severely damaged and that the rebuilding of confidence and a feeling of security in the organization will be one of the major problems confronting you in the future.

9. From several fragmentary instructions I am now able to form rather clearly defined priorities. These are arrived at by the concurrent consideration of our definite commitment to the US Armed Forces in Europe to continue to give highest priority to tactical collection of interest to the US Commanding General in Europe, our overall national intelligence needs, our future stake in the intelligence field in Europe and the financial limitations currently imposed upon the support of the

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project. Most of these I have previously discussed with you or your representative and all are reduced to writing at this time for your continuing guidance:

a. Intelligence on the strength, disposition and capabilities of the Soviet Forces in Sovzone Germany, Poland and the Western USSR remains the top priority. All efforts will be made to maintain the production level of such intelligence.

b. Eliminate operations in Yugoslavia, Hungary and Bulgaria unless, in the case of the two latter, an early extension of an individual operation into the USSR appears likely.

c. Eliminate Sovzone Austria operations. USFA has clearly indicated that while your reports are of high caliber and valuable for confirmation purposes, the coverage by USFA agencies of the Soviet Central Group of Forces is adequate.

d. Keep the Signal Intelligence operation at its present level; the Air Forces consider this a highly valuable operation and their continuing logistical support has been assured.

e. Delay taking action on reduction of the PW interrogation project. We are currently negotiating with the Air Forces in the hope of obtaining support of the project from them. No priority for this project has been received from Washington.

f. Operations in Rumania should be continued with emphasis on OB and extension of lines into Southwestern USSR.

g. The strategic planning that has been done by 100 should be examined and the most concrete and promising operations be reduced to detailed projects at the earliest opportunity. Since these operations in most cases go through countries where we have diplomatic representations and intelligence connections, these projects will have to be presented in more detail than, for example, those into Poland or Rumania.

h. A detailed report of all personnel and activities in friendly and neutral countries is desired. Upon receipt of this data on each individual country we will examine the facts in light of possible utilization of our communication facilities and contacts to economize and at

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94. (Continued)

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the same time efficiently accomplish the desired purpose.

i. A well rounded intelligence organization, capable of independently mounting and supporting agent operations remains our basic concept of your organization.

j. For various reasons it is not contemplated that it will be possible to run any operations into the Baltic area through the Scandinavian Countries. For this reason, it is suggested that we take steps to liquidate any commitments that exist in these areas (Norway, Sweden and Finland). If you can give me the details of present commitments in those areas it is possible that the individuals concerned may, in some instances, be integrated with activities already in progress.

the
10. In/future, I shall make an effort to keep you advised at the earliest practical time and in writing of all matters pertaining to financial support, since I feel very strongly that our relationship in the future must not be characterized by the misconstrued and misinterpreted utterances of persons in official positions on either the German or the American side as to the extent of financial and other types of support which can be definitely expected in the foreseeable future.

11. If there is anything in this or future letters which is not clear or with which you cannot in good conscience agree, I would appreciate it if you would immediately and candidly bring the matter to my attention.


James Critchfield

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TO GERMANY ONLY

94. (Continued)

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Incl. # 2

SECRET/RELEASE
TO GERMANY ONLY² June 1949

34

 Catchfield
MEMORANDUM TO: Mr.

I beg to make the following comment on your Memorandum dated 15 June 1949:

- I. At the beginning I should like to stress as the most important point that, at this juncture, it is decisive for the future of this project and its activities to overcome, by a common effort of the US and German side, the crisis which now faces this project and its work. It seems to be of little avail to pose the question of who is to be blamed for this development. When I, nevertheless, set forth my view on this problem touched upon in par 2 - 4, I am motivated by par 11 of your memorandum which expressly invites me to do so.

In general I shall limit my comments to generalizations, but am attaching extracts from relevant memoranda which support these statements (see Inclosure 1 a - n).

Thus, with a view toward clarifying my position with respect to the specific matters raised in your paras 2-4, I feel it necessary reemphasize the following factual aspects of the development of this project during the past three years and particularly the period since August 1948:

- (a) All principal changes in the organizational structure and redirection of collecting activities of the German organization have been discussed with and received the approval of the US Commander.
- (b) From the time of the currency conversion to the present, it has been quite clear to me that we were becoming increasingly involved in a difficult financial situation which could well prove catastrophic to the project if the financial support were not increased. In the face of constant assurances from the appropriate US officials, including specifically General HALL, that funds would be increased and cuts should not be made, I delayed taking the necessary action to reduce the operation.


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94. (Continued)

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(c) It is true to an extent that EEIs plus the verbally given opinions of the highest authorities on the US side have exerted a strong influence on the line of development which this project has taken. This was necessary only because of the complete absence of a directive giving collection priorities prior to the late autumn of 1948. The disparity between the support and the EEIs and the resulting obvious need for clarification have, on numerous occasions, been cited in memoranda to the US side. (See Inclosure 3 a - d). In the absence of such direction we attempted to interpret the EEIs and develop a collection program consistent with

- (1) Our broad mission of conducting intelligence operations against the USSR;
- (2) The highest priority for tactical collection as consistently stated by all US officials;
- (3) The indicated intelligence needs of EUCOM and the Department of the Army as frequently explained by recognized persons of authority from the Intelligence Divisions of the respective headquarters; and
- (4) The financial and material support available.

In this sense and from my viewpoint as the responsible head of the German organization, the phrase "unplanned and uncontrolled growth" presents an inaccurate picture. I do not feel qualified or that it is appropriate to comment definitively on the planning and control as applied to the US side of this operation.

(d) Since the summer of 1948, there has been a continual but, in retrospect, inadequate reduction program in progress. Occasionally at both the field and staff level it has been necessary to employ new individuals to meet specialized current needs. These have not, however, been sufficient in number to, in any measure, negate our reduction program.

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94. (Continued)

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TO GERMANY ONLY

- (e) The lack of US participation in the operational activities of this project has been the underlying cause of some of our most difficult problems. As early as 1946, I urged General SIBERT to ensure the assignment of qualified US intelligence officers with operational experience. The failure of the Army to solve this problem was one of the main factors behind my written statement to General HALL on 5 February 1949 that continuation of the project under EUCOM direction was impossible (see Inclosure 2 a and b).
- (f) The origin of EEIs with "various US agencies" appears to be essentially a US matter since EEIs coming to us are normally identified only as coming from EUCOM. Some independent direction from USAFE has effected the PW interrogation project and the signal monitoring program.
- (g) A theoretical division of the monthly allocation of funds (\$125,000) among the 3,000 individuals of the project would provide each individual with the sum of approximately \$40 per month. From this fund he would live and support his family, pay informants, border guards, informants and cut-outs not included in our organic group of 3,000 and defray part of his overhead expenses, including operational supplies and fuels and lubricants for his operational vehicle, if his particular duty necessitated the availability of a vehicle. Thus it is clearly evident that the organization with its demonstrated productivity could only have achieved its goal by directly or indirectly capitalizing on the desperate economic plight of the European peoples and the resulting black market. With the exception of the few expected cases of individual opportunism, however, increasing the intelligence production on the USSR has been the only motivation behind this practice which, I am sure, has been characteristic of all US and Western European IS activities in Europe, particularly Germany, during the postwar period. Thus, I do not consider valid the inference that the possibilities of black market financing was a decisive factor in planning the scope of our activities to a greater degree than it has influenced the planning of any other intelligence organization engaged in the agent type operation during the same period.

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94. (Continued)

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TO GERMANY ONLY

- (h) To this organization, the fight against an expansion of Communism conducted with the means of an Intelligence Service and in cooperation with the United States is not merely a "job", but a mission to be pursued with all the means within the framework of our possibilities at a spiritual level. Of course, we have always tried to achieve a maximum of results with the allocated means. Taking into consideration that:
- (1) During the current fiscal year, an average of 8,000 reports was received per month on the basis of an allocation of \$125,000, i.e., slightly more than \$15 for each report inclusive all incidental expenses; or
 - (2) With a total strength of approximately 3,000, an average of about \$40, including all extras, is available per month for each member of the organization;
 - (3) As a comparison, these funds amount to about 1/6 of the sum spent monthly on the maintenance of the Bavarian Rural Police with the strength of 7,000 men;
 - (4) In terms of dollars, this organization - according to my estimate - required an expenditure which amounts perhaps only to half of that needed for the upkeep of one US Army regiment. The expenditure for such a regiment may bear fruit in a later war, when this has been won. However, the costs required for the maintenance of an efficient Intelligence Service bear a substantial profit already prior to such a war, inasmuch as such an Intelligence Service may be a decisive factor in the efforts to prevent a war altogether or to postpone it until a moment when the European situation has been consolidated to the advantage of the Western Powers.
 - (5) We have every reason to point out that our organization is probably operating cheaper than any other Intelligence organization of a similar type.

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TO GERMANY ONLY

94. (Continued)

SECRET/RELEASE TO GERMANY ONLY

Summary:

I am quite in agreement with your feeling that there appears little to be gained at this time by attempting to fix the relative responsibility for the failure to take the necessary actions to have avoided the present crisis. In retrospect I criticize myself primarily for not having taken decisive actions when the necessity for such actions was clearly indicated and no positive action from the US side was forthcoming. This error in judgment on my part came from placing too much confidence on the words of high ranking US officers. Among these officers was General HALL who, as G-2 of EUCOM, was fully responsible for the conduct of our operations and who, late in 1948, promised in a rather concrete form additional \$500,000 for the current fiscal year. Fully informed about the serious situation by the letter from 34 of 5 February 1949, he again avoided a decision on a reduction of our organization in a discussion held late in February, by promising his help to overcome our plight. It must, therefore, be stated that the steadily rising scepticism on our side was again and again disarmed by high ranking US officers; whose authority could hardly be doubted. This confidence was supported by the reflection on the German side that the considerable reduction of an organization like ours, which was constantly credited with the obtainment of 70% of the information originating from the European Theater, could hardly be in the interest of the United States.

II. The Present Situation

The present situation is characterized by the discrepancy between the available funds and the intelligence requests listed in par 9.

In Detail:

To par 7: The sentence "The present level of support is \$125,000 and funds for these projects (operations outside Germany) must come from this sum" constituted a clear decision in the sense of par 1 of our memorandum dated 17 May 1949. In accordance with the facts mentioned in this paragraph, this decision would merely theoretically necessitate the following cuts in our budget submitted on 3 May 1949:

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94. (Continued)

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TO GERMANY ONLY

Overhead	reduced to about 49%
Intelligence activities in Sovzone Germany	" " " 20%
Operations outside of Germany	" " " 42%

Since this decision had not been submitted to us in such a clear-cut form prior to the discussions about reduction held with the individual suborganization leaders, these discussions were conducted on an uncertain, if not wrong basis. Only the leaders of Suborganizations 120 and 22, in submitting their proposals for a reduction, have included the costs for operations outside Germany into the allocated fixed sum. The corresponding proposals of all other suborganization leaders were determined by the expectation that projects for operations outside Germany submitted by them would be forwarded for consideration and possible financing outside of the budgetted allocation of \$125,000. 34 and 7 are now faced with the unpleasant situation either to hold renewed individual discussions with the suborganization leaders under these essentially changed conditions with a view to effect far more drastic reductions, or to take these decisions without any prior consultation with the leaders in the field due to the pressure of time.

To par 9: Some entirely new viewpoints become discernible, of which only that mentioned in par c ("Eliminate Sovzone Austria operations") offers the possibility to decrease the operational expenses. However, this reduction is only slight, amounting to about \$7,500. Moreover, par b admits some other minor savings (about \$18,000).

Apart from that, the purport of this paragraph will have a decisive influence on the new resolution mentioned as indispensable measure at the end of the comment on par 7. In reflecting upon the extent to which this has to be done, a considerable discrepancy with the decisive sentence of par 7 becomes visible at once. This sentence may be quoted here again: "The present level of support is \$125,000 and funds for these projects must come from this sum".

The demands incorporated in par 9 a, d, e, f, i and the partial demand in par 9 b lead to the following rough estimate of costs, based on an dollar exchange rate of 1:6:

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94. (Continued)

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a. Total allocation according to the budget of 3 May 49:		\$150,000	
To be deducted therefrom for			
Sovzone Austria	\$7,500		
PW interrogation	<u>9,300</u>		
	\$16,800	\$ 16,800	
		\$133,200	\$133,200
b. Total allocation for Yugoslavia, Hungary, Bulgaria according to the budget of 3 May 49:		\$ 36,550	
To be deducted therefrom for			
Yugoslavia (total)	\$1,400		
Hungary (50%)	5,875		
Bulgaria (50%)	<u>11,700</u>		
	\$18,975	\$ 18,975	
		\$ 17,575	\$ 17,575
d. Costs for Signal Intelligence operation at its present level were included in the overhead expenses of the budget of 3 May 49. They must be inserted separately with:			\$ 6,000
e. PW interrogation:			\$ 9,300
f. Total allocation for Rumania according to the budget of 3 May 49: Deductions are impossible in view of the requested extension of lines in- to SW USSR, therefore:		\$ 11,750	
			\$ 11,750
i. For the maintenance of a well rounded intelligence organization, the retention of essential overhead personnel, i.e., at least 2/3 of the present level, is considered necessary. Overhead expenses according to the budget of 3 May 49: Minus costs for Signal Intelligence:		\$105,000	
		<u>- 6,000</u>	
		\$ 99,000	
2/3 of this sum amount to:			\$ 66,000
Total: a + b + d + e + f + i			\$243,825
	i.e. approximately		<u><u>\$244,000</u></u>

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TO GERMANY ONLY

94. (Continued)

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TO GERMANY ONLY

When considering the substance of par 9 with regard to its flexibility, it appears that only par 9 a: "All efforts will be made to maintain the production level" offers a possibility to change the above calculation.

Thus, the following picture would present itself: b + d + e + f + i add up to a total of \$110,625, i.e., approximately \$111,000. This would leave only \$14,000 for operations in the Sovzone Germany, so that these operations could be maintained only at 10,5% of the present level.

On the other hand, if the realization of the theoretical consideration for a reduction of overhead personnel as contained in par 1 of our memorandum of 17 May 1949 should be envisaged and combined with the considerations underlying the above estimate, this would result in the following picture:

b + d + e + f	\$44,625
i instead of 2/3 only 1/2	<u>\$50,000</u>
	\$94,625
i.e., approximately	<u><u>\$95,000</u></u>

This would leave \$30,000 for operations in the Sovzone Germany, i.e., these operations could only be maintained at 22,5% of the previous level.

Only after performing these rather forcible calculations, the full picture of par 1 of the memorandum of 17 May 1949 becomes discernible, the item "long range tactical and strategical Intelligence" of this memorandum corresponding to items b + d + e + f of the above representation.

It is hardly possible to prove more clearly the discrepancy between par 7 and par 9 of the memorandum which is being commented upon here. The elimination of this discrepancy is a task insoluble for us.

The above comment on par 7 and par 9 is based on a merely theoretically calculating foundation. In practice it must not be forgotten that the organization in its present structure has grown organically, and that a so far-reaching procentual reduction represents an unorganic intervention, terminating the vitality of all individual parts.

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TO GERMANY ONLY

94. (Continued)

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III. Summarizing Comment

I wish to stress once more that in accordance with our political conception it seems imperative that the present crisis, with which our organization is faced, be overcome by a common effort of the American and German elements. Therefore, the following is considered necessary:

- (a) That all operations outside of Germany be put on a project basis; that a decision on the submitted projects, including PW interrogation, be reached within the shortest possible time; and that the granted sums be placed at our disposal without delay. This applies particularly to those projects which have already been initiated and are bearing results.
- (b) To reach a decision on the problem whether a so drastic reduction of our tactical intelligence activities in the Soviet Zone of Germany should actually be effected in view of the desired preservation of a well rounded organization. If this should be answered in the negative, the fixed allocation of \$125,000 for overhead and tactical intelligence activities in the Sovzone Germany would have to be increased accordingly.

I am completely aware of the fact that a drastic reduction of the organization is unavoidable. It has already been initiated. However, if things really are as stated in par 7 of your memorandum and if no speedy and positive decision should be taken on par (a) and (b) of my summarizing comment, this reduction will take such forms that we are really afraid it might lead to a disintegration of this project from within. To be sincere, I must confess that the financial plight and the prevailing uncertainty as to the scope and character of its future missions may well have shaken the confidence of our co-workers in the US-German leadership of this project to such a degree that this may be the beginning of an unavoidable disintegration.

Should it be found out in the course of the next weeks that, due to the initiated drastic reduction of personnel caused by a prolonged financial crisis, the confidence which is indispensable to the continuation of our work has been lost irreparably, the only way out would be to dissolve the organization and to rebuild it in a different shape. The same applies if the condition stipulated in par 7 of your memorandum - allocation of \$125,000 for the solution of all our tasks - will be maintained.

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94. (Continued)

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Inclosure 1 a

COPY

34 a

4 July 1948

MEMORANDUM TO: 23

It could be gathered from many reports and discussions that practically all the LdA's are quite worried at present about the question of funds for the July budget. The funds in DMark which have been allotted so far as an intermediate aid are not sufficient to carry on the work at the present scale, especially for the LdA's, who up to now have only received a relatively small amount in DMark.

The funds in Dollar, already paid out for July up to the amount of the old Dollar allocations, can only be used at a very unfavorable rate of exchange. As the fixed costs of the organizations cannot be reduced by a considerable margin, the prices having remained the same, there will really remain only small amounts for the actual purposes of the organization.

It has, therefore, become necessary to find as soon as possible an intermediate financial solution for July and inform at once the organizations hereof, so that they have a foundation to build up their work.

As the development of the economic situation and the valuation of the new currency cannot yet be ascertained, 23 should put an amount at the disposal of 34 as soon as possible, enabling the latter to help the organization in overcoming their financial difficulties in July.

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94. (Continued)

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Inclosure 1 b

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34

8 August 1949 - 487

TO: 23

SUBJECT: Justification of Budget

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The expenses for the organization have not gone down after the money conversion, the prices for vital goods having remained the same on an average. On the other hand, the value of the Dollar in relation to the DMark has gone down considerably, just as the price for cigarettes is now only a fraction to the former price. To give an example: Before the currency reform, the price of one carton of cigarettes was 800.- RM. With this amount the fares for railway journeys of 10,000 km could be covered. Today the carton of cigarettes will bring only 35.- RM, an amount which does not cover 600 km railway fare. This goes to illustrate that after the currency reform not the same results can be obtained with the same funds as before the money conversion.

The necessary funds are being estimated as follows, taking the conditions after the money reform into consideration:

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Inclosure 1 c

11 September 1948

Minutes of the First Meeting
of the 7821 Composite Group Budget Board.

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Mr. HERDAHL pointed out the facts which would result from the allotment of only \$125,000 per month. We would have to cut the tactical intelligence from 1/3 to 1/2 and the strategical intelligence from 1/2 to 2/3. The strategical intelligence is in worse shape because the tactical intelligence can completely exchange their currency, while the strategical intelligence can only partly exchange theirs. The inevitable result will be a considerable decrease in the amount of reports received from the field. The number of reports received before the first reduction amounted to 8,000 reports, now we receive only 6,000. This shows a decrease of 2,000 reports. There will be another decrease in case more cuts are necessary due to a further reduction of money (possibly to about \$80,000).

For the last year, the organization dissolved all the unproductive nets. At present we have only good nets. If we have to cut down we will lose valuable personnel. The people concerned will then be lost forever.

Col. BERRY asked for the proportions of how to cut the tactical or the strategical intelligence. Mr. HERDAHL answered that the decision of where to cut is not up to the German organization. We should have a priority of EET's from the American side. Col. BERRY promised to get this priority as fast as he can. Some time ago, Major STRONG had already promised to send a priority list, but nothing arrived so far.

Capt. SWEARINGEN stated that Maj. STRONG and Col. MEYER had assured him that we would possibly get a substantial increase very soon. He suggested not to make cuts right now, but to wait for approximately two months before taking such measures, if then.

Three possibilities were discussed how to cut nets:

- (1) To keep the net alive with small means, the net working only to a small extent;
- (2) To cut the net off completely and to have other nets active;
- (3) In case we can wait with the payment of our debts, we can continue to keep all nets active, adding from the reserve and waiting until the final word comes from higher headquarters.

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94. (Continued)

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Col. BERRY agreed that we should wait until this has been talked over with EUCOM.

Mr. HERDAHL emphasized that it would be a serious step to make more cuts and that, in case we are forced to do it, EUCOM and Washington should be informed. He mentioned a few possibilities of how to save some money, but these are in no comparison to the total amounts of the discussion.

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13 September 1948

MEMORANDUM TO: Col. SCHOW
THRU : Lt. Col. BERRY

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Already before the introduction of the currency reform, the financial means available to this project were too limited in relation to the required information and the extensive activities of this project. That it has been possible, on the whole, to furnish the required information in spite of the above disproportion is certainly due to the fact that almost all co-workers of this project have been motivated by idealistic considerations, which has made our project by far the most inexpensive intelligence service of the world.

The appropriation of \$125,000 per month after the introduction of the currency reform, in its actual effect, represents a considerable reduction of a budget which itself had not been adequate.

This reduction has led to a temporary suspension of the planning in the field of strategic intelligence activities, which had been necessitated by the received intelligence requests. Furthermore, due to the shortage of means, also the tactical IS activities had, for the time being, to be reduced by 30 - 50%. After a consolidation period of about one year, during which all but first-class connections had been dropped, the above limitation of our tactical IS activities is on the point of affecting the substance of our most reliable connections. In this connection, it must be pointed out that a severed reliable connection cannot be resumed at will.

I feel obliged emphatically to point out this fact and the certain decline in the number and quality of the information which it will be possible to obtain.

But there is still another factor which has an unfavorable effect on the activities of this project.

Prior to the beginning of the new fiscal year, the German chief of this project submitted to the GO a proposal for a budget, which was adjusted to the received intelligence requests. Thereupon, prospects were held out to me according to which I could expect an increase of our financial means. But instead of this, I was informed on 11 September 1948 that, effective immediately, this project had to reckon with an even smaller sum than \$125,000 per month. This reduction was explained by the fact that henceforth the rations, PX articles, POL books - contrary to the former usage - would have to be included in the \$125,000 allocation and that, furthermore, additional payments will have to be made to cover a debt of about \$130,000. This constitutes

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94. (Continued)

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TO GERMANY ONLY 2 -

such a considerable reduction of our financial means, which have been inadequate before, that the immediate reduction of about one third of the activities of this project must be decreed.

If there are imperative reasons for such a reduction of our financial means, it is not up to me to argue about it.

Valuable results may be secured with a considerably reduced project on condition of a corresponding limitation of the requested intelligence, it is true. However, it is absolutely necessary that we should be informed, at least 6 months in advance, what financial means will be available to this project. Only such an information would guarantee:

- (a) Accurate financial planning by subordinated organization leaders;
- (b) A prior and timely planning of the activities of this project;
- (c) The elimination of human hardships and security threats to the operation. A discharge without any previous notice requires a cooling-off period of about three months for the affected individuals, and causes additional non-productive costs to the operation during this period.

I should appreciate very much if I were informed, in due course, about the financial means which this project can definitely expect for this fiscal year.

In submitting this memorandum, I believe to serve simultaneously the interests of the designated Commanding Officer of this project.

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94. (Continued)

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TO GERMANY ONLY

Inclosure 1 e

29 September 1948

MEMORANDUM TO: 23

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A statement of expenses for September 1948 shows that the amount of \$125,000 has already been exceeded without taking the expenses for QM items and other supply into consideration. With a heavy heart the leader of the organization had to make the decision to dissolve the reserve fund created for the emergency case and to take the balance from this fund in order to still prevent for this month touching upon the very substance of most reliable and excellent connections.

As is to be seen from the statement of expenses for individual projects, attached to the budget estimate, there was only a fraction of the actually required funds at the disposal of the organization to comply with the various requests. If the organization was, nevertheless, successful in complying with most of the requests, this was done with the aid of various financial transactions and making use of the personal credit of many members of the organization. In this manner the organization succeeded in manoeuvring itself over the first three months of the new budget year. But the methods hinted at are undesirable ones and cannot be used permanently. Also the money lent has to be paid back at one time or another.

The budget estimate submitted by the organization before the beginning of the fiscal year 1948/49 had been made in accordance with the requests for information received by the organization. In order to direct the work of the organization properly and give the orders for intelligence work according to plans, it is absolutely necessary to know definitely which financial allowance the organization will be able to count on finally for the current budget year.

Should it not be possible to allot the funds necessary to fulfill the tasks set to the organization, then the question arises which steps will have to be taken to bring the tasks of the organization into accord with its funds. For one thing a priority for the individual information requests could be fixed, whereby all those requests should be cancelled for which there would not be enough money. The requests from the American side which could not yet be started due to the lack of money would have to be finally dropped. They represent mainly those requests for strategic intelligence going into the interior of Russia and into the back parts of Poland and Czechoslovakia. The decisive importance of just those requests, especially for target information, is not underestimated. But the expenses for strategical intelligence work are so excessively high - for instance, one single commitment to Rumania costs at least \$1,000 - that this work could only be done by dropping an important part of the present information work. It is for this reason that up to now the request to build up an agent radio net and long range direction-finding could not be complied with.

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TO GERMANY ONLY

94. (Continued)

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TO GERMANY ONLY**

As all connections which were not first-class ones have already been dropped during the course of the fiscal year 1947/48, savings can only be made by touching on the substance of excellent connections. It may be pointed out too that these connections cannot be picked up again ad lib. The capital invested in these connections is, therefore, definitely lost. It should also not be overlooked that even a sudden dropping needs at least three months time as a cooling-off period for the respective parts and in consequence causes further expenses for this period.

The present work could be cut down in this respect that all expensive requests are being dropped, e.g., especially the largest part of the strategical intelligence. But one could also make less exact the picture of the situation for the areas near the border (Soviet Zone, Satellite States), which at present is composed like mosaic work of innumerable individual reports, by procuring only a few individual reports and then drawing conclusions for the whole situation from these few reports. That thereby the present exacting methods of work would be dropped and that the results of the work would partly be left to chance, one would have to take knowingly into the bargain. Certainly the expenses could thereby be reduced considerably, as one commitment into the Soviet Zone after the money conversion is costing nevertheless almost 3,000 Marks.

In summarizing from the proceeding pages one can state that a decision regarding the following points will be necessary:

- (1) To fix definitely the funds at disposal for the fiscal year 1948/49 as soon as possible.
- (2) To give a priority list to the American requests.
- (3) To give a decision regarding a possible touching of the substance and the dropping of most valuable connections.
- (4) To fix the budget for 1949/50 until January 1949 at the latest, so that a timely planning at long sight is made possible at all.

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Inclosure 1 f

C o p y .

34 a

8 October 1948

N o t e

Regarding Discussion 34a with Lt.Col. BERRY *) on 8 October 1948.

- (1) Col. BERRY firstly confirms that on the evening of 7 October General HALL said to 34a: Do not reduce under any circumstances. Keep the organization in its present state of efficiency, so that it can go on fulfilling its present tasks. I cannot make any promises but I am convinced that you will get considerably larger funds. This is the impression I have brought along from the States.
- (2) Col. BERRY stated that General LEMAY had sent word through Capt. HUTCHINS that he not at all agreed to any reduction in our activities nor to the proposed priorities. With those latter the strategical demands of the Air Force would be dealt with insufficiently. LE MAY would do everything in his power to create the possibilities that his information demands would also be complied with. He would get in touch with General CLAY and would also get busy along those lines when going to the States now.

In summarizing, Col. BERRY said: "Therefore no reduction!" If necessary, take money from the reserve funds. He would do everything he could to fill up the reserve funds again.

1015 hours: This information handed on to Mr. HORN and Mr. WOLLMANN. Both agree that Mr. SCHACK should also be informed.

*) Deputy CO

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Inclosure 1 g

Excerpt Copy.

31 December 1948

MEMORANDUM TO: 23

SUBJECT I Budget

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6. According to the kind of work, each organizational decision has its effect not before three months. Therefore, it has to be decided immediately whether 50% of the organization in the field must be cut off. This would mean that this reduction of the organization would become effective on about 1 April 1949, so that it would be possible to balance the budget from 1 April 1949, not before that date. This decision will highly influence the efficiency of the organization for a long time. Therefore, I propose to take up this decision with higher headquarters. It must be stressed that dropped parts of the organization cannot be reactivated and that several months would be required to rebuild the organization to its present size and efficiency.

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94. (Continued)

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Inclosure 1 h

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34 a

6 January 1949

Note

Regarding the Conference 23 - 34 - 34a and later on 75 on 3 Jan 49

at 1630 Hours.

SUBJECT: Financial Matters

.....

34 points out that in this case orders for reduction of activities should be given at once.

23 decides then that this should not be done at the moment and that a final decision should be postponed until he returns from his journey at the end of January. Up to that time it should also be known what the result of General HALL's trip to the States had been, e.g., if we could expect more money.

23 believes that he could take the responsibility to postpone the decision, especially as he felt certain that we would actually get more money.

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94. (Continued)

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Inclosure 1 i

34 a

12 January 1949

Note

Regarding the Conference 23 - 34a - Major LEFFERS - Capt. WALDMAN
on 7 January 1949 at 2000 Hours.

.....

23 points out that the organization has saved in any case payment for QM items for January, that now only payment for QM items for February would become due and that then a reduction of activities would become necessary in any case unless the allotted funds would be raised.

34a emphasizes that any reduction of activities would become effective only three months after beginning so that meanwhile we would get into financial difficulties.

23 then states that he had planned, in case expected additional funds would fail to arrive, to stop the total activity for the Air Force, the expenses of which are estimated to amount to about 25% of the total expenses of the organization. Should he talk at the right moment of such a step this would have such an effect that the Air Force would be forced to give aid at once. The present aid given by the Air Force consisted only of 7,000 gallons of fuel - about \$84.-.

It is agreed that there is nothing else to do at present but to keep steady nerves though the present situation is an unpleasant one, especially for 23 who after all is finally responsible.

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TO GERMANY ONLY

94. (Continued)

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TO GERMANY ONLY C O P Y

Inclosure 1 k

24 January 1949

Dear Colonel Philp,

The great anxiety I feel toward the continuation of our work makes me write these lines to you. The great confidence we all have in you, who has been connected with this work from its very beginning, encourages me to use free and open words in voicing this uneasiness.

From the beginning, I resolved to try my very best to win the most qualified German capacities for unre-served cooperation with the USA. In doing so, I was motivated by the following convictions:

- (1) A show-down between East and West is unavoidable in the long run.
- (2) Every German is under the obligation of contributing his share, so that Germany is in a position to fulfill the missions incumbent on her for the common defense of Western Christian Civilization on the side of the Western Powers.
- (3) For this reason, everything should be done to strengthen the leading power of this constellation, i.e., the USA, as far as this was compatible with our national conscience and our personal honor.
- (4) The epoch of the conventional national states has been superseded by greater conceptions, such as the Union of Western European States and the community of the Western oriented nations. This development does not exclude the conservation of our national characteristics within the framework of a West German federate state.
- (5) The above mentioned development will necessarily make the USA the best and most objective friend of Germany regarding a reasonable political and economic development.

Although you are already familiar with these arguments, I thought it advisable to mention them again in order to stress my attitude with regard to our work.

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TO GERMANY ONLY

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In the course of this work, I had the privilege of making the acquaintance, both in the USA and here, of eminent representatives of your country. I cherish the greatest gratitude to them all for the magnanimous understanding, which they have shown us in the course of our constructive work.

Since we have always tried to make the best of the existing possibilities, leading US circles may not have fully realized the extraordinary difficulties, which we have had to face in carrying out our activities. It is only in this way that I can interpret the lack of support which repeatedly endangered the continuation of our work, although it should not have been so difficult to grant us this support. May I mention the following examples:

- (1) About mid-August 1946, General SIBERT promised to assign an adequate number of US officers experienced in IS matters to this project. - However, until August 1947, only one such officer, i.e., Capt. WALDMAN, was available to the Commanding Officer. Only after this time, some officers have been successively assigned. Of these, in my opinion, Major BAIRD and Lt. KESTLINGER were entirely unqualified in the IS field. Capt. SWEARINGER is unqualified and Major LEFFERS has only limited qualifications for the work done by them here. It need not be particularly mentioned that Lt. RICHARDSON, due to his previous assignment as Public Safety Officer, has speedily familiarised himself with his work, and that Major WALKER, because of his experiences in OSS, is a very great help to us.

In saying this, I may be countered to the effect that I am in no position to judge the US officers assigned to this project. However, I trust, you will grant me such a privilege with regard to the 26-year period of my military service and the many years of experience I have had in the special IS field. The employment of well qualified US officers, experienced in the field of IS matters, is of decisive practical and psychological importance to us. The utilization of unqualified officers, on the other hand, cannot but lead to an undermining of confidence of the German co-workers, because such a personnel policy would suggest the conclusion that the higher headquarters do not fully appreciate the importance and special requirements of the IS. I would, furthermore, like to point

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out that the assignment of such qualified officers, who have a fair command of the German language, is of the greatest importance for our entire work. Everybody who is sufficiently familiar with the functioning of an IS knows that personal contact and confidence means everything in this field, and that for this reason, it is not feasible regularly to change officers employed in it just as one changes one's shirt. Therefore, the intended transfer of Capt. WALDMAN, Major WALKER, and possibly Lt. RICHARDSON, the only experienced officers of this unit, would have very detrimental effects on the efficiency of this organization and would lead to the conclusion that the superior headquarters are not sufficiently familiar with the particular problems of our work. By way of conclusion I must, therefore, state that also in this point we have not been given the required support, although this would have been possible.

- (2) During the period that Col. LIEBEL was CO of this project, the situation prevailing here became untenable. The selection of such an officer, who obviously lacked every understanding of IS matters, has adversely affected the American authority within our entire organization. This was partially compensated only by the fact that our organization had previously been given the chance of making the acquaintance of men like Mr. Sam BOSSART, who, on behalf of CIA, visited the various field agencies of this organization for several weeks and who, through his extraordinary experiences in the IS field, left a permanent impression. Also in the case of Col. LIEBEL, we succeeded only after many months in bringing about a decision with regard to a change of the CO. All the accompanying circumstances were very regrettable. The fact that Lt. KESTLINGER got off with a small fine for his embezzlement of funds, in order to protect Col. LIEBEL, whose most diversified activities did not remain unknown to this organization, has not enhanced the confidence in the American sense of justice, which has also suffered from the way in which various political trials were conducted. Rightly or wrongly, the apparently intended transfer of the most qualified US officers, such as Capt. WALDMAN, Major WALKER, and possibly Lt. RICHARDSON is viewed in connection with the LIEBEL affair.

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TO GERMANY ONLY

94. (Continued)

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TO GERMANY ONLY

On this occasion, I would like to tell you quite openly that my own confidence in the future of our common cause was so gravely shaken by all these events, that I would not have continued in this position if you, with whom we have been acquainted since the period immediately after the war and from the very beginning of our work, had not become the CO of this unit.

- (3) The conduct of IS activities is a matter of long-range planning. This includes long-range planning also in the field of finances. I am completely aware that such financial planning, due to US budget problems, has its special difficulties. In spite of all our urging, which was done on various occasions in due course and which is on record, we have not met with the possible support in this field. For instance, a considerable time prior to the introduction of the currency reform, we drew attention to the difficulties to be expected for our work, and actually got into a grave plight immediately after this currency reform. If even the French and British IS, which are supported by countries of less financial means, succeeded in making the new currency available at the lowest levels on the very day the currency reform went into effect, it is difficult to understand why such a settlement should not have been possible to the US IS.

The currency reform has resulted in an overall picture of the financial situation of this organization, which requires an immediate decision either drastically to cut this organization and the activities conducted by it or to allocate the means required for the continuation of this work in its previous extent. I have submitted the required records in my Memorandum dated 31 December 1948. In the two conferences, which were also attended by some gentlemen from Washington, we were told that our activities should continue as before, since we could expect a proportional increase of the sums to be allotted to us. In view of this communication, no change in the activities of this organization has been effected so far, and owing to the assistance rendered by EUOON by the transfer of a smaller amount of money, the

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period until the end of January could be bridged. Now, the time has come for a decision, the fact being stressed that all measures to be taken for a reduction of our organization require a wind-up period of about 3 months.

- (4) In order to furnish an additional minor example of the effect of a decision, which we have difficulty to understand, I would like to point out that Mrs. WALDMAN's unexpected leaving this organization in the next days would lead to a considerable reduction of the amount of reports handled by us, since no qualified replacement is available and no officer can be made available for her former missions without detriment to other important tasks. Moreover, the editing job requires a prolonged period of familiarization. Otherwise, lack of experience as to the way of cooperation with the translation section will lead to a great number of mistakes, which it will take some time to eliminate.

In writing these lines, I have selected only a few points to characterize our situation. I would like to stress once more that my belief in full US-German cooperation and the basic fairness of the US agencies with control of our work, remains unshaken in every respect. This is largely due to the personal contact with a number of eminent officers who are outstanding in their respective fields, such as individual representatives of the War Department; General HALL, Col. SCHOW, and Lt. Col. KRETCHFIELD in Europe; and last but not least, you yourself. On the other hand, I must confess that such confidence does not exist regarding the efficiency and competence of those parts of the US IS with which we have to perform our work.

Since I am responsible not only to the US as to the efficiency and loyalty of this organization, but am simultaneously charged with the responsibility, vis-a-vis the entire circle of the German co-workers, for the continuity of our work and their personal security, I feel obliged to submit to you, in a few days, some amendments of the Organizational Directive for the 7821 Composite Group, dated 13 October 1948, and of the various pertinent supplements, since several points are not acceptable to me in their present form.

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94. (Continued)

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I am perfectly aware that certain difficulties are inherent to the particular nature of our work. For this reason, it seems to me all the more necessary that all reasonable US help for eliminating the avoidable difficulties should be granted to us by the competent US agencies. Should it not be possible to grant such assistance, the continuation of our work would lose its necessary basis and I would feel obliged to propose the dissolution of the entire organization. It goes without saying that in such a case, I would take all measures to effect the dissolution in the most loyal manner, which would in no way affect the political interests of the US.

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94. (Continued)

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Inclosure 11

2 February 1949

Copy of a Memorandum Forwarded to Col. PHILP

on 3 February 1949

I.

- II. For months I am asking now for clearness concerning the financial means, which are available for the operation in the future. I stressed that it is not the point to have more money. The point is to have clearness. Even if we do not get more money, I am satisfied; but then I have to cut down the organization for about 40%, since the dollar dropped about 40% in value, as I forecasted. Every time I was told not to cut down, because our funds would be increased.

Since summer 1946 I was asking for the support by a sufficient number of American officers with the necessary background and experience. Up to now, this request was never fulfilled, not even in the utmost limits required for our work. In the contrary, the few experienced officers we have are being transferred - a fact nobody here or in the field will understand.

- III. I come to the conclusion that I cannot take the responsibility for the operation neither toward the American nor the German side, unless measures are taken immediately to fulfill these requirements mentioned above. If not, I have to resign from my position. I know that the leading personnel in the operational headquarters as well as in the field will not be willing to continue their work in such a case. Therefore, I will present a plan for dissolving the organization over a period of several months. I assured General SIBERT of our loyalty. Therefore, the dissolution will be carried out in such a way that the American political interests will not be hurt.

Our political conception regarding the cooperation with the United States did not change. Therefore, I regret very much that I have to make this decision. Anybody who was in charge of large intelligence operations must agree that under these conditions which we are experiencing, it is impossible to work. If these conditions will not be changed, I am not willing to lose my reputation by working without the necessary support and the fundamental backing.

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94. (Continued)

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Inclosure 1 m

Excerpt Copy.

5 February 1949

MEMORANDUM TO: Col. PHILP

Measures to Be Taken to Cut Down the Organization
Due to the Financial Situation

.....

II. Conclusion:

An immediate decision will have to be made to cut down rigorously the organization. The following measures are intended and already initiated:

- (1) To cut down the total of the members of the organization from 4,000 to 3,300. The decrease will be carried out in each sub-organization proportionally.
- (2) To stop all activities which need money beyond the normal routine work, such as:
 - (a) Operations to fulfill newly received or special briefs.
 - (b) Establishing of special courier lines to speed up the flow of incoming reports.
 - (c) Training and establishing of radio agents.
- (3) To dissolve three sub-organizations. The most efficient parts of them should be taken over by other organizations. The way of carrying out this step has to be studied in detail before going into effect.

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Inclosure 1 n

5 February 1949

Dear General Hall:

.....

Anybody who is experienced in our operational Intelligence work knows that planning is a very essential part of the operation. Planning is based on the requirements and also on the funds given to the operation. It was absolutely impossible for me to obtain from the American side a definite statement concerning the funds allotted to this operation in time, i.e., 3 - 6 months ahead. Repeatedly, I pointed out in memorandums and discussions that the operation cannot continue on its present scale, if the funds were not increased. I also clearly stated that, if the funds are not increased and we have to continue to work with the amount we receive at present, we can do so, but would have to reduce the overall organization. However, I was told again and again not to cut down the operation because additional funds would be made available.

.....

As far as I am concerned, I am convinced that a direction and control of this organization by Intelligence Division, EUCCM, is absolutely impossible. With the exception of a very small number of officers from the Intelligence Division, EUCCM, I am convinced that the majority of the officers also at that headquarters have no operational Intelligence background and, therefore, are in no position to take decisions concerning the activities of our operation. Therefore, I propose that an immediate change be made in the subordination of this organization. I propose that this organization be placed directly under a headquarters dealing with our kind of undercover operations. A solution should be found, which assures the fulfillment of the requirements of EUCCM. In case you are of the opinion that such a change is impossible, I would appreciate that you would inform me, because then I am forced to execute the dissolution of our organization according to the proposals forwarded.

I am very sorry that the development took such a turn, but I am also convinced that I cannot take the responsibility for the future work to be continued under the prevailing conditions. It is impossible to concentrate on the planning and execution of our mission while facing continuously the obstacles artificially created by lack of understanding.

Under no circumstances would I wish to create a wrong impression of my

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TO GERMANY ONLY

94. (Continued)

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TO GERMANY ONLY

decision not to continue working unless the present conditions are changed. I shall always remain loyal to our mutual cause. However, nobody can expect from me to do a job without providing me with the basic requirements for our work.

By closing this letter, let me stress again, Sir, that I am regretting deeply the development, and also that I have to ask you for your personal help. Both of your visits here showed me the personal understanding you have for us and our problems. The confidence of all of us in you gives me the hope, that by your personal action the matter might still be brought to a good conclusion, and to find a solution which will fulfill the basic requirements for our work in the interest of our mutual cause.

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94. (Continued)

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Inclosure 2 a

Excerpt Copy of a Memorandum to General WALSH

dated 9 June 1948

.....

During the last months, I have repeatedly requested that an Operations Section should be formed under the management of the officer who has done all this work for 18 months, and that Col. LIEBEL should arrange his work according to the same principle as I do it myself: He should reserve for himself the decisions on fundamental questions but, otherwise, leave a free hand to his officers. However, Col. LIEBEL did not decide to bring about any alteration until he realized my determination to appeal to the next higher headquarters in case nothing would be changed. Instead of making the two officers the nucleus of this Operations Section, who have a first-class knowledge of the total organization, its working methods and its mentality, and who have the complete confidence of all field installations, it is planned to get a number of new officers and to assign a new Lt.Colonel as the Chief of this Operations Section, who is not acquainted with us and our working methods. During conversations with me, Col. LIEBEL emphasized that he wanted combat officers only and not officers from the Intelligence branch. Exactly the contrary is necessary. The two officers who so far were brought here by Col. LIEBEL, Major BAIRD and Lt. KESTLINGER, are nice fellows but quite unsuited for their jobs. I request you, general, to take into consideration that I have succeeded in securing for you the best German staff available for our work. If the American side has not likewise assigned only the best of the available American staff, it is a psychological disadvantage and detrimental to the American cause.

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TO GERMANY ONLY

Inclosure 2 b

Excerpt Copy of a Memorandum to General HALL

dated 5 February 1949

.....

It is very obvious that this operation needed more experienced US Intelligence officers. However, with the exception of the new Commanding Officer, Col. PHILP, whom we know for several years, and Major WALKER, Capt. WALDMAN, Capt. RICHARDSON, and Capt. REDDEN, no Intelligence personnel with experience in agent operations or special background was assigned to this operation. We received a number of officers who are absolutely unfit to work with an Intelligence operation of our kind. They do not possess any Intelligence experience, have no knowledge of the native language or of German mentality, and also partly do not have the right attitude toward the organization. Not only that they are not able to give the necessary support to the operation because of lack of knowledge, they are partly also hurting the operation by starting mutual distrust and lack of confidence.

As you already know, we are just about to lose two of operational experienced officers, and I also will never understand why, for instance, Capt. WALDMAN was transferred without first sending a replacement who could have been briefed and oriented by him prior to his departure. I cannot believe that Intelligence Division, SUCOM, was not able to do that. It proves to me the complete lack of understanding of our requirements, particularly in the personnel policy, and at the same time, I can assure you that at the present situation, we are not capable to work without experienced American Intelligence officers. Therefore, I am requesting a definite change in the US personnel policy as far as our project is concerned.

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Inclosure 3 a

Excerpt Copy

of a Verbal Note Read to General WALSH on 19 May 1948
on the Occasion of his Visit

.....

Your special attention, general, is invited to the problem of funds. The amount of the required funds depends on the orders given to us. Therefore, I ordered the calculation of the costs for each separate brief.

I do not know the amount of the funds which can be made available to our organization. It might be necessary to decrease the means by eliminating some of the briefs.

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94. (Continued)

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Inclosure 3 b

11 September 1948

Minutes of the First Meeting

of the 7821 Composite Group Budget Board.

.....

Col. BERRY asked for the proportions of how to cut the tactical or the strategical intelligence. Mr. HERDAHL answered that the decision of where to cut is not up to the German organization. We should have a priority of EEL's from the American side. Col. BERRY promised to get this priority as fast as he can. Some time ago, Major STRONG had already promised to send a priority list, but nothing arrived so far.

Capt. SWEARINGEN stated that Major STRONG and Col. MEYER had assured him that we would possibly get a substantial increase very soon. He suggested not to make cuts right now, but to wait for approximately two months before taking any such measures, if then.

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(see also Inclosure 1 c)

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Inclosure 3 c

Excerpt Copy.

29 September 1948

MEMORANDUM TO: 23

.....

The budget estimate submitted by the organization before the beginning of the fiscal year 1948/49 had been made in accordance with the requests for information received by the organization. In order to direct the work of the organization properly and give the orders for intelligence work according to plans, it is absolutely necessary to know definitely which financial allowance the organization will be able to count on finally for the current fiscal year.

Should it not be possible to allot the funds necessary to fulfill the tasks set to the organization, then the question arises which steps will have to be taken to bring the tasks of the organization into accord with its funds. For one thing a priority for the individual information requests could be fixed, whereby all those requests should be cancelled for which there would not be enough money. The requests from the American side which could not yet be started due to the lack of money would have to be finally dropped.

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(see also Inclosure 1 e)

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94. (Continued)

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Inclosure 3 d

Excerpt from Letter to General HALL of 5 February 1949.

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5. As already stressed before, my repeatedly submitted request that I be informed 3 - 6 months in advance concerning the amount of available funds has not been complied with. Furthermore, there is an increasing discrepancy between the EEI's forwarded by the superior US authorities and the funds actually placed at the disposal of this project.
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95. [Critchfield] to Chief, FBM, "Basic Considerations in Reviewing the Concept and Mission of [Gehlen Organization]," 21 September 1949

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MBLA-427

21 September 1949

Chief, Foreign Branch M - ██████████

Chief of Station, Karlsruhe

Operational
Basic Considerations in Reviewing the
Concept and Mission of ██████████ *ODEUM*

James Critchfield

1. Attached is a policy guidance letter from ██████████ to Dr. Schneider, dated 20 September 1949.
2. An effort was made in this letter to consolidate Washington policy guidance received during the past three months on operational matters.
3. Normally, matters of policy received from Washington are taken up verbally with Schneider in our almost daily conversations. However, in my relationship with him during the past ten months, I have learned that the impact of matters presented to him officially and in writing is considerably greater than of those transmitted only in conversation.
4. From my point of view, this type of letter, addressed to Dr. Schneider and forwarded to Washington, is extremely valuable in that it forces an attempt to arrive at an objective position reflecting both policy guidance from Washington and the familiarities and pressures attributable to our intimate relationship with the German organization.

James Critchfield

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TO GERMANY ONLY**

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95. (Continued)

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20 September 1949

MEMORANDUM TO: Dr. Schneider - [REDACTED]

SUBJECT: Basic Considerations in Reviewing the Concept
and Mission of this Project.

1. After careful consideration I decided to attempt to sift out of the Washington correspondence of the past few months significant views on the basic concept and mission of this project and present them to you, separately from the matters discussed in my 20 September Memorandum "Coordination and Control of Negotiations with German Political and Economic Circles and Representatives of Western European Intelligence Services".

2. When, in the spring of 1949, my organization made the decision to assume responsibility for this project, I immediately posed numerous policy questions requiring answers of a categorical and rather far-reaching nature. Answers to these questions were consolidated into a statement of the mission of the project and transmitted to you in my letter of 15 June 1949. This letter and your subsequent reply of 22 June 1949 raised numerous problems confronting us at that time. Most of these problems have been solved or are now approaching a solution. The problem which you posed regarding the considerable discrepancy between the mission of the organization and the support allotted was resolved by an agreed plan (attached as Annex A), which currently forms the basis for financial and organization planning for the remainder of the calendar year. It was agreed that the budget for this plan could be met from our promised or accumulated resources but that no reserve would be available. Since that time we have agreed that funds accruing from sources not considered in our original planning would revert to a reserve fund to be spent for purposes to be specifically agreed to by both of us. This fund is currently accruing at the rate of \$6,000 monthly, from savings made through the gratuitous issue by Military Government of certain operational supplies, the payment of which was provided for in our planning. Elimination of the necessity for supporting the project through extensive black marketing has greatly improved the security of the project as well as the moral atmosphere in which we work.

3. In accepting the plan attached, Washington agreed that all operations outside of Germany would be financed separately from the funds allocated to the project for the remainder of the year. Separate financing of these operations will commence on 1 November 1949, at which time funds allocated to carry over the operations until that date will have been expended. This plan is based on an extremely close time schedule, and I anticipate that the period following 1 November may present some difficulties.

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TO GERMANY ONLY

95. (Continued)

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TO GERMANY ONLY

4. Operations outside of Germany have now been presented to Washington. Each of these operations, approximately 120 in number, has been reported in a rather skeletal form for separate consideration on its individual merit and for a decision on the support to be allocated to it after 1 November 1949. The staff processing of these projects has been accomplished in a remarkably short period and has placed an undue burden on your staff, which has concurrently been involved in an extensive reduction and reorganization program. Further complicating this period has been the fact that we have made numerous suggestions and recommendations for revising existing procedures in your organization to bring them more into line with those of my own organization. That your staff was not able under these circumstances to indulge in a higher degree of coordination and meticulous staffing of operations reported as projects is clearly understandable. Also, it has been most gratifying to me to note the development of an increasingly harmonious relationship within our joint US-German staff during this period in spite of the obvious pressure from several sides.

5. Although Washington has frankly deplored the lack of detailed information included in the original project reports, they have demonstrated a sympathetic attitude and indicated that in spite of the fact that they have only sufficient information to make a superficial assessment of the value and potentialities of the individual operation, they will be reasonably lenient in approving projects for an additional 3-6 months period in order to provide our US-German staff the necessary time to provide them with further details. While the good faith and basic inclination of my home office to adequately support this project is clearly evident by their favorable decisions on almost all matters, particularly financial, during the past three months, I have no illusions that they will continue to take a lenient position on the question of centralized control of operations through the availability of exact operational details, including personalia.

6. Washington agrees that the greatest strength of our relationship lies in the basic premise of US-German cooperation in the intelligence field against the Soviet Union. However, they reduce this relationship to concrete terms spelled out in specific matters of operational coordination. The very nature of intelligence work dictates that the effective coordination and direction of a large scale intelligence effort must be based on a highly centralized and exacting consideration of details. The very fact that our adversaries within the framework of the worldwide Communist Party and the RIS do represent a highly centralized apparatus, making full utilization of the advanced communication system of the postwar world, dictates that we do not unnecessarily hinder our own effort in the intelligence field by indulging in unnecessary compartmentization and decentralization. My home office feels that the willingness of your

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TO GERMANY ONLY

95. (Continued)

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organization to cooperate in the establishment of a centralized and thus effective leadership will be a substantial test of the success of the indoctrination program to which you have subjected your staff and co-workers in the field during the past few years. I assure you that the sincerity of you and your immediate staff is not questioned on this point and that I and individual members of my staff thoroughly appreciate the background and difficulties of your relationship with many of your leading members in the field on this point. Consistent with our recent discussion on the problem of procuring operational details in connection with projects, I and individual members of my staff feel a real responsibility and assure you maximum assistance in this matter by attempting to develop, through personal contacts with your co-workers in the field, a sense of trust and cooperation.

7. After discussions in early August with you and members of your staff on the subject of providing Washington immediately with detailed personalia to clarify the projects submitted to Washington, we pointed out the difficulties posed in attempting to make a hard issue of this problem at the moment. Washington's reply to this indicates that they will approve a number of projects with the clear understanding that approval is for a period of three to six months only, and that the future of the operation will depend largely on the success of our joint efforts to convince the organization leaders that operational details are essential to our Washington office.

8. Not unrelated to this problem is the question of the availability of raw agent reports to Washington for use in the evaluation of the operations. This poses the fundamental problem of Washington's conception of operations run by this project. If they insist that the complete evaluation of operations be done in Washington by having available there full personal data of persons involved and the raw material submitted by the agents, the necessity for the maintenance here of the intricate staff machinery and expert personnel to do the same function is subject to questioning. It necessarily follows from this that, once the basis for evaluation of the source is available in Washington, where they certainly have adequate material for an evaluation of the information, should not the preparation of the finished intelligence reports from the data produced by the operations outside of Germany be also done in Washington. This type of logic, if played out to the end, would result in our present organizational planning and basic conceptions of organization and mission hardly remaining valid. Assuming that Washington's desire is to have available to them the personalia and raw agent reports only from operations outside of Germany and not on operations in the Sovzone of Germany, our project would then find itself turning

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95. (Continued)

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TO GERMANY ONLY

out finished intelligence on the Sovzone for dissemination to US Military Forces in Europe and additionally running a number of agent operations into the satellites and the USSR producing raw material for forwarding as such to Washington for evaluation and dissemination at that level. I imagine that a detailed consideration of this trend with all of its ramifications would indicate that it is related to every facet of this project.

9. I have interjected the speculation in the preceding paragraph in order to bring clearly into focus a trend which I am sure you would have independently noted from a number of recent communications from my home office that I have either discussed with you or some member of your staff. I am certain that as time passes that Washington will recommend the elimination here of functions which can be performed more economically and efficiently under more favorable circumstances in Washington; in other cases, they may determine that this project is especially qualified to exploit certain intelligence roles and will desire an expansion in those fields. My personal opinion is that the trend will be toward the operational field and away from the research and analysis functions. In opposition to this trend, of course, will be the necessity for producing here in Germany such types of intelligence in finished form as are required for direct dissemination to US agencies, especially the Armed Forces, here in Europe. At some time in the future your relationship with the German Government and a consideration of its intelligence needs will also be a factor.

10. I urge you to give careful attention to these considerations since I think that they touch matters striking to the very roots of much of the planning and reorganization that is now in process. I am not entirely clear on Washington's views on these matters, and I am not sure whether some of the fragmentary instructions which hint the trend suggested in Para. 8 above are indications of a carefully considered long range plan or merely the coincidence of individual and isolated views neither related nor considered in connection with any projected plan. It is certain that Washington considers the present period to be one of waiting and further examination of the project before establishing a long range plan for the coordination of your intelligence producing efforts with those of our own service.

11. In summary, the basic mission of this project as described in my memorandum of 15 June 1949 remains unchanged except as altered by this present memorandum. However, there are ample indications that the current decisions made after individual consideration in Washington of specific minor problems do not necessarily coincide with the broader decisions made at the time

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TO GERMANY ONLY

95. (Continued)

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that my organization accepted responsibility for this project. This is understandable and, indeed, to be expected, since our knowledge of this project was at most rather superficial at that time. These manifestations of a possible change in basic conception on the part of Washington is what prompted my speculation in paragraphs 8-10 above. Although I feel it is considerably premature to take any action on this matter, it should certainly be kept uppermost in our minds during the next few months.


James Critchfield

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- 96. [Critchfield] to Chief, FBM, "[Gehlen Organization] - Dr. Schneider's Negotiations with Third Parties," 22 September 1949, enclosing [Critchfield] to Dr. Schneider, "The Coordination and Control of Negotiations with German Political and Economic Circles and Representatives of Western European Intelligence Services," 20 September 1949

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TO GERMANY ONLY

22 September 1949

Chief, Foreign Branch M - [Redacted]

Chief of Station, Karlsruhe

Operational

[Redacted] - Dr. SCHNEIDER's Negotiations with Third Parties

[Redacted] WASHF - 9467

1. Although the substance of reference has at various times been discussed with Dr. Schneider and more often with his alter ego Herdahl, I feel that it is a problem with which we shall experience some difficulty and that our position should be made unmistakably clear to Schneider and a matter of record.

2. During the past few weeks there have been a number of incidents in which unilateral action by [Redacted] has brought about situations fairly embarrassing to Dr. Schneider and served to bring home the point that the days of the free and uncontrolled ride with the Army are over and he must prepare to coordinate his activities with us.

ODEUM

3. I anticipate that Dr. Schneider will officially and probably with conviction concur with the substance of the attached letter. Whether he will as conscientiously adhere to it depends primarily on whether we can persuade his staff, particularly Herdahl, to settle Dr. Schneider down occasionally to put down the details of his own activities and, more so, whether we can add to our staff a man qualified to enjoy the trust of and work closely with Mr. Merker, whose section handles all significant connections to German political and economic circles as well as to numbers of Western European intelligence services with whom Schneider has already established contact.

James Critchfield

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96. (Continued)

**SECRET/RELEASE
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20 September 1949

MEMORANDUM TO: DR. SCHNEIDER - [REDACTED]

SUBJECT: The Coordination and Control of Negotiations with German Political and Economic Circles and Representatives of Western European Intelligence Services.

1. Insistence on being informed and in a position to control our activities at all points where they may become involved, or in conflict with, the interests and activities of my organization as well as those of the United States Government as a whole, is the single dominant theme of all recent correspondence that I have received from my home office.

2. I can state categorically, however, that the nature of the control that my home office envisages is not greater than that which it imposes on the individuals and activities of my own organization. In fact, with regard to the allocation of funds and the conduct of operations, I feel that we enjoy comparative freedom.

3. Those matters in which my home office feels the highest degree of coordination and cooperation are essential are:

a. Those activities in which this project is actually or potentially involved with other activities of the American Intelligence Service.

b. Those activities in which this project is actually or potentially involved with the activities of other friendly intelligence services.

c. Those activities in which this project is actually or potentially involved with the activities of non-intelligence agencies of the United States Government.

4. My home office considers it basic that they can support only political or economic activities that are directly related to the maintenance of our intelligence functions. However, they are thoroughly appreciative of the fact that the establishment of economic cover and reaching of working terms with elements of the German Government are at this time essential to the continuation of the development of this project along the lines of our mutual interest. Washington feels that our solutions to the problems of cover and governmental acceptance should conform to broader US policy in Germany and Europe. In stating this they have not implied in any way that actions already taken by you have not been consistent with their position on broader issues. On the contrary, it is my impression that our activities during the past

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few months tend to supplement and coincide with those of my organization.

5. In supporting this project, my organization has taken full responsibility vis-a-vis the United States Government for our activities as a German intelligence organization. When the activities of this project extend into those spheres in which other US agencies have a paramount interest, it is absolutely essential that our activities be consistent with resolved United States policy. This point becomes vital when we become involved in matters that transcend the limits of what can be defined as being solely of intelligence interest. Thus, even within the boundaries of Germany our activities within the political and economic circles is a matter of immediate concern to other US government agencies having a paramount interest in those fields, and the need for US intelligence ensuring that we move in a direction consistent with general US policy becomes clearly evident. At no time, however, do we expect you or any member of your organization to become involved, at our suggestion, in furthering, in either the German political or economic fields, activities which are unacceptable to you as loyal German citizens. In this sense, the control which the US element of this project desires to impose is passive and not active. In the final analysis, and certainly consistent with your fundamental conception of German-American cooperation in the broadest sense, this type of a controlled and coordinated assault on the problems that confront us should prove mutually beneficial.

6. My home office has taken an increasingly adamant position on controlling your connections with the intelligence services of Western Europe. As you can well appreciate, our relationships with other intelligence services are extremely complex and demanding of the highest degree of coordination from the viewpoint of my home office. Failure to exercise this control, even within our own organization, invariably results in serious embarrassments and compromises of our formal liaison arrangements. Because of this, Washington has recently informed me that insofar as connections with foreign intelligence services are concerned, you and members of your immediate staff will be subject to the same limitations as are imposed on members of my own organization. Washington grants clearance in each case after being informed of the persons involved and the matters to be discussed. That your future position in the European intelligence world is, to an extent, dependent upon relationships that you develop and maintain with the leading figures of other Western European services is appreciated. The fact that my home office does not, in principle, intend to oppose such contacts is evidenced by their willingness to approve the visit to Rome to contact leading figures of the Italian IS. I urge that at the earliest opportunity we carefully review in detail the nature and extent of your present relationships with other services, particularly the Swiss, Spanish and French, with a view toward proposing to Washington a suitable disposition of each existing relationship.

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96. (Continued)

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7. I can state categorically that you have, since the establishment of our present relationship, invariably advised me of your contacts in German economic and political circles as well as your impending contacts with Western European IS personalities. Also, the results of such contacts have been habitually reported. I have admittedly been remiss in not passing on to my superior headquarters sufficiently detailed accounts of our connections in either the German political and economic circles or with personalities of Western European Services. Normally, our conversations preceding or following your contacts with personalities of interest to my home office are of a general nature in which the substance but not the details of events are covered. While I conclude such conversations feeling adequately informed, I do not normally have either sufficient detail to provide the basis for a report to my home office nor the time available to follow up such conversations with requests for such details as names, places, dates, exact description of circumstances, etc.

I would greatly appreciate it if our present almost daily conversations which deal with all significant aspects of the entire organization, including developments of interest involving a third party, could be supplemented by detailed written accounts of contacts by you or members of your immediate staff which appear to have implications described above. This purely mechanical variation of our present method of handling these problems appears to be the best solution until such time as I have available on my staff an individual especially qualified to deal with the Special Connections Section (35) on these problems.

ca. a

James Critchfield

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97. [Critchfield] to Chief, FBM, "Dr. Schneider's Reply to Recent Policy Guidance Letters,"
with enclosures, 12 October 1949

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copy 21/10

Air

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[REDACTED]
MGLA-575

12 October 1949

Chief, Foreign Branch M - **EYES ONLY**
Chief of Station, Karlsruhe

Operational - **[REDACTED]**
Dr. Schneider's Reply to Recent
Policy Guidance Letters

[REDACTED]
MGLA-432, MGLA-427

Attached is Dr. Schneider's reply to my letters
of 22 August 1949 reported in references.

[REDACTED]
James Critchfield

Dist:
~~2~~ - FBM w/encl
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2 - File

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97. (Continued)

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10 October 1949

MEMORANDUM TO: 20 - [REDACTED]

SUBJECT : Basic Considerations in Reviewing the
Concept and Mission of this Project

I. Introduction

Before developing my position as to your memorandum of 20 September 1949, I want to express my satisfaction and my gratitude for the spirit and the sincere manner in which cooperation between your staff and my own staff has taken place. Furthermore, I want to express my gratitude for the understanding and help in connection with our activities shown by your Home Office in solving the principal problems for which we had asked for help. I consequently want to stress the point that the following explanations correspond principally to my desire to contribute in many years to come to the political cooperation between Germany and the United States of America, a cooperation which I consider imperative for the future German foreign policy as shown in my memorandum of 16 May 1949. It is just this firm belief, however, which puts me under the obligation of clearly assuming position wherever my opinion differs from yours. I consider our intimate personal contact as a guarantee for the fact that my explanations will be considered as a constructive contribution even there where they constitute criticism, and I would be grateful to you for similar critical contributions from your part in order to continuously improve our efficiency.

II. General Elements of Our Work

Before explaining my position toward the problems listed in your memorandum, I consider it useful to discuss again the basic elements of our work. The work of our organization has a political and an intelligence aspect.

1. Political Fundamentals

Following the German point of view, the political fundamentals of our work are anchored to the following two points:

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- a. The firm belief that a future German foreign policy has to be based for the coming period of history on a very close cooperation with the United States, even in the frame of a Western European unity (see memorandum of 16 May 1949). As far as I have been able to ascertain up to now, this conception seems to correspond in all points to the views of the new Federal Chancellor. In this connection it is to be said that a future German foreign policy will aim to secure to the German people a participation on equal rights with equal duties inside the family of all nations of Western ideas under the leadership of the United States. I suppose that in the long run the interests of the United States will be lying on the same lines. It will be of importance for the development of the organization what contribution in the field of politics is expected from and can be given by our organization in the future with respect to American-German cooperation. Here I must stress the point that it will never be up to this organization to execute an active political influence in domestic or foreign politics, as this would stand in complete contradiction to the non-partisan character of a German intelligence organization working against the East. However, a role which the leaders of our organization could be expected to play and could actually play is the role of a loyal intermediary also in the field of foreign politics and in conformity with our mutual ideas.
- b. The fact that our organization as a German organization and under German leadership cooperates with the Intelligence Service of the United States as well in a German as in an American and general Western interest. Our organization has practically no political and - as I shall explain later - no intelligence value for the United States, or an extremely reduced one, if this organization would work either de jure or de facto with the character of an incorporated part of American intelligence. Although there is so far no direct contact to ADENAUER, my inquiries to his point of view concerning a future incorporation of our organization showed that this problem can be discussed only if we are at least to the exterior not dependent on any foreign power. It is useless to emphasize that as Germans we are bound by our conscience to stop our activities in the present shape, should the competent German leaders fail to

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authorize our present work at least morally, i.e., unofficially. This applies regardless whether a future incorporation into the German governmental machinery comes into question or not.

2. Fundamentals of Our Intelligence Work

Our intelligence efficiency and our achievements are based on the fact that we operate with German methods applying to German mentality, which differs from the Anglo-American mentality. If I now propose to explain the principles of such work, this does in no way mean that I consider our methods as being better than those of other intelligence organizations. They simply take into consideration the German mentality of a German machinery and are, therefore, in a position to lead to the highest achievements. In our cooperation with your staff we consider ourselves at the same time as students of the matter and it may be that the American-German cooperation just on the lines of intelligence may lead to reciprocal fertilization.

For many reasons the difference between the American and European (e.g., French), and especially German views on the technique of intelligence can be illustrated as follows:

a. The American Conception

To the United States as a political power isolated on the Western Hemisphere until World War II, no political step presented itself so urgent as to require immediate decisions. To a certain extent this still applies today. As a result American intelligence authorities give far more importance to security and a meticulous care of detail work than to flexibility and rapidity of work. A machinery running under these principles can tolerate to be very centralized and the limit lies only there where a leadership isolated at a writing desk and not acquainted with practical problems begins.

b. The German Conception

European politicians, and on account of their geographical position especially the Germans, have always needed to take very quick decisions in the last century. Whereas in America most of the problems are not urgent and may, therefore, undergo careful, long-time planning,

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there were and there are many so urgent problems in Europe that they require a machinery able to take quick action without loss of time through planning. The result is that European intelligence always insisted on greatest flexibility and quickest action. These fundamental principles are still more important today and in the future, as the enemy of Europe stands before the doors and on account of his autocratic system is in a position to act with the quickness of a lightning. But greatest flexibility and quickest action are available only if everything is decentralized as far as ever possible, if the persons in responsible key positions are trained to dispose personally of the highest possible initiative, and if centralization is substituted by the most careful selection and training of the executive personnel in all various ranks. No doubt there exists a number of things which must be centralized though this fact does not change the above principle in any way. The fundamental principle has always been that it is better to act wrongly instead of not acting at all, even if this would result in occasional damage. The greatest successes of the German Wehrmacht in both World Wars are due to the application of this principle in the military field, based on a very careful and uniform training of the leading personnel of all ranks who were in a position to act according to the intentions of the commandment in every position and even without orders. Only when Hitler, who characteristically rejected such methods as being "democratic", forced in and tried to lead all single divisions from the highest level, the way to failure was inevitable.

Only due to the fact that in the past I had full freedom to set up our organization in accordance with our war experiences, I was able - in spite of the known difficulties - to develop the organization to a very high level of efficiency, an efficiency which, incidentally, was considerably higher last summer before the big cut down. I am completely aware that our work must still be improved. However, it is quite clear to me that a mechanical application of American principles to our work would deprive the organization of its principal source of efficiency, the initiative of the single individuals in all fields. For this reason I always stressed the following point of view in my instructions

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to the leaders of all sub-organizations: "Never a direct scheme, as little as possible SOP on fixed terms." By no means must the machinery be allowed to assume a bureaucratic character. Therefore, I am very satisfied when I learn that the Sub-Organization Leader I, for instance, organizes his work completely differently from the Sub-Organization Leader Y, since intelligence work is always based on the personality of the leader concerned. It is the task of the direct superior to watch that the objective requirements of the work are taken care of. An application of rigid forms for everything leads people to act according to schematical lines without using their brains any more. I am of the opinion that the satisfactory development of Operation "IKARUS" extemporized within a few days during the American maneuvers is due to the above sketched working principles and would have not been possible with another way of conduct.

c. Comparison Between the American and German Methods

The advantage of the American concept is a high degree of security, a larger range of survey for the highest command; its disadvantages are reduced flexibility, slower development of work, higher expenses and consequently diminished return of the money invested, lacking exploitation of persons of high ranking qualities in the field, and restraint of the personal initiative and sense of responsibility. The German method leads to a higher flexibility, quick work, extensive exploitation of personal capabilities, greater efficiency at lower expenses. The disadvantages are a lower degree of security in certain fields, a shorter range of survey, and occasional difficulties of coordination. Regarding security a German military slogan is applicable, not verbally but spiritually: "Wirkung geht vor Deckung" - if you don't take a risk, you will not have good results. Also in the intelligence field it is necessary to a certain degree to run a security risk in favor of the success. The important point here is to take suitable Counterintelligence measures in order to recognize in due time compromised parts and to eliminate and replace them.

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It is perfectly clear to me that the American method of closely directing even the least details by the central headquarters has certainly also other reasons peculiar to American conditions. If, due to my experience of many years in intelligence work, I may be allowed to express my opinion, this will prevent a quick development of an efficient and flexible machinery and especially the full exploitation of the high standard of its very able sub-leaders. Following the impression I obtained, the American IS (not the Army agencies) disposes of many highly educated and intelligence-experienced personalities of high-ranking capacity. The mentioned kind of unfavorable centralisation is spotlighted by the fact that the representatives of US IS in the field dispose of far less independent power than their colleagues in the individual European Intelligence Services. To be quite frank, I do not believe that Washington, even knowing as many details as possible, will be in a position to decide competently whether a project under examination will turn out successful, whether it can be carried out, and whether it is suitable. Only persons who are in the range of the field activities and, therefore, able to get an immediate picture from a close view can decide on such matters. Of course I am quite willing to admit that it is necessary to coordinate from top level the activities of different agencies operating in the same region.

It is a principle of a sound leadership not only to give orders but also to control their execution. On the other hand the full confidence from top to bottom and vice versa of the leading personalities is of decisive importance, especially in intelligence work. The greatest enemy of confidence, however, is an exaggerated interference and control. This consideration leads to the necessity of carefully adjusting the required measures of control to the need of maintaining confidence.

I want to emphasize again and as a matter of course that we carry out without restrictions in our operations all American requests, even if they do not seem to us fitting for the purpose as long as they are in accordance with our basic conception and with normal rules of security.

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3. Summary

In summarizing I want to stress again the following points of view which should continue to be the principles of our work:

- a. The long range aim is to convey the organization at a later and suitable date into a German Intelligence Service which is supposed to work in close cooperation with the US Intelligence Service in a way not easily detectable from the exterior.
- b. Independent from their Eastern intelligence activities, the leading personalities of such an Intelligence Service will also be in a position to act as intermediaries in the political field.
- c. It would be an error to impose on such an organization the principles of American working methods and it would essentially reduce its efficiency, the more as this organization has to work in the immediate range of the front line. Following our conception, we claim the right to operate freely inside the lines of a given mission according to German mentality. A lowering of our organization to the level of a subordinate agency which simply carries out instructions would be contradictory to our basic conception. It would be a definite and ultimate stop to the development of our efficiency and would render impossible our future incorporation as a German Intelligence Service. Under no circumstances the American pattern of leading operations and administration methods must be applied within the organization, because this would earmark the organization as a part of the US Intelligence Service. The conclusion drawn by the members of the organization from an application of the American pattern would have a very bad effect on the morale of the organization. The necessity to keep the German pattern concerning leading operations as well as administration methods may be one of the most decisive points.
- d. The above mentioned points make it imperative that the organization be maintained as a well rounded intelligence organization. Even those parts which work analytically - Evaluation Group - and, contrary to American views, represent not only an instrument for research but also an

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operational instrument, cannot be eliminated without changing completely the whole working method which is a result of our war experiences.

- e. In order to prepare at long range the proposed transformation into a German entity, it is necessary to find organisational and working ways which - though separating the German from the American elements - prepare the grounds for a still closer and more trustful cooperation.

The decision about the methods to apply and the time to employ is for our American partner also a political decision besides its importance on the intelligence field. My own personal view in this matter is that we should continue our work under American patronage as long as general conditions permit such policy.

I should be extremely grateful for a prompt reaction to the discussed considerations in order to be able to coordinate my own ideas and measures with the policy of the American side.

III. Detailed Discussion of Your Memorandum

I may be permitted to state in the following my position with regard to the detailed questions contained in your memorandum. Almost all of these questions have been touched in the above basic considerations.

1. A financial agreement according to the plan proposed by you was only possible after the following measures had been taken:
 - a. The American side explicitly accepted a great reduction of our activities, especially in the field of tactical intelligence in the Sovzone Germany (about 40% of the turnover of 1 May 1949). The reduction of the output which has been suffered so far can be seen in Inclosure 1. A very serious consequence may already take place very shortly should the Soviets carry out their apparent intention to change their motor vehicle numbers. It is very doubtful whether it will be possible this year to gain control over the new numbering system within 6 weeks as it was done in 1948, because the number of reports received on motor vehicle numbers has decreased too considerably.

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- b. The American side assured us that the promising projects of intelligence outside Germany, i.e., in the satellite states and the Western Military Districts of the SU, would be financed as from 1 November 1949.

So far it was possible, although with the greatest difficulties, to observe this financial plan. The difficulties consisted especially in the maintenance cost for the running projects. We are particularly grateful for the possibility of building up a comparatively small financial reserve by monthly savings of \$6,000. This will be of great value when further unforeseen difficulties may arise.

2. Seen from the German angle the intimate cooperation, especially with the gentlemen who have joined your staff in the last months, has developed on extremely satisfactory lines. This cooperation was especially favored by the technical efficiency and human comprehension shown by these gentlemen.
3. The favorable aspects described in par 1 and 2 are consolidated by the foundation of the Basic Agreement with regard to our basic conception and our mission. All the elements of this our mutual charta have been discussed several times between your goodself and myself and have been accepted by both parts without any essential discrepancy. This improved the morale of the organization with respect to the future in spite of all difficulties and hardness due to reorganization and reduction.
4. Your memorandum "Basic Considerations in Reviewing the Concept and Mission of this Project" now touches two fundamental problems, the solution of which is decisive for the future existence and development of the organization, as clearly and correctly stated also by you. The problem of coordination and centralization is discussed in par 4 - 7 of your above mentioned expose and furthermore in your expose "The Coordination and Control of Negotiations with German Political and Economical Circles and Representatives of Western European Intelligence", also of 20 September 1949. The other problem concerns the evaluation and has been dealt with in par 8 - 10 of your first mentioned expose.

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a. Coordination and Centralization

I have already given my opinion on the problem of coordination and centralization in par II while discussing the basic principles. Of course this my opinion, which stands in contrast to yours, will never be an obstacle to satisfy all your claims and requests up to the highest limit of what I believe I can answer for and what the organization is able to achieve. However, my fundamental opinion expressed in my memorandum of 22 August 1949 with regard to disclosing details and names behind the Iron Curtain has not changed in the meantime (see Inclosure 2). In this connection I want to draw your attention to the fact that in order to show my good will and in spite of my strongest objections I disclosed to you shortly after you took up your duties here the personal data on all key personnel of the organization to be forwarded to Washington. Cases like Alger HISS, Ruth GORLON, and others show that this cannot be done without reservation. Therefore, I am not in a position to guarantee definitely to be able to furnish all details required by your Home Office. In the worst of cases we have to renounce to carry out the respective projects. The very understandable viewpoint of the sub-organizations has nothing to do with the success of the "indoctrination" mentioned by you.

In detail, the following can be said about coordination:

- (1) A coordination in the sense of your memorandum is absolutely necessary as far as the operation of main organizations and their basic missions are concerned.
- (2) A limited coordination is necessary as far as the geographical distribution of the target regions is concerned. But this should not assume such an extreme form that certain countries subject to operations and lying inside the operational range of different services should be practically banned for one or more of such services. Let us take the instance that we should no longer be permitted to operate in Yugoslavia, Hungary, and Bulgaria (except using such countries as jumping off basis for operations toward priority countries). This would lead to the assumption for our part that other US

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or US tied agencies are operating there. A loss of nets or lines of these agencies must be taken into account. This ought to lead as a precautional measure to let another organization, for instance ours, overlap. Besides, a rigid geographical separation following the borders of a country is entirely wrong, as the threads never stop at borders.

- (3) A coordination in the above sense is furthermore necessary if connections with another friendly intelligence service are involved. Of course it should never happen that in such a case conditions develop which are contrary to the general interests of the Western Hemisphere (America and Western Europe). On the other hand, all interests of direct neighbors who breathe, so to say, the same air have to be taken into special consideration.
- (4) A limited coordination in the above sense is furthermore necessary concerning political connections of our organization to persons of the new German government. It is absolutely understood that in this concern the general ideas of US politics in Germany will be taken into consideration. Fortunately these ideas correspond to a very large extent to those of this organization. However, situations can arise when starting and operating such connections where I am bound to insist on the necessary independence for myself or my deputies, and this in harmony with the procedure so far observed. This would mean that no explicit American approval has to be requested for each detail. Further opinions in connection with this problem will be stated when discussing the evaluation.
- (5) A coordination in the above sense is furthermore essential in case of connections of commercial nature which serve chiefly as economic cover. In case of American firms it is natural that these ought to be checked in every detail as to their aptitude and that views of domestic US politics may play a decisive role. In case of German firms it ought to be sufficient if your Home Office checks the international business relations of such firms.

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Should the result be satisfactory the organization ought to be granted a certain independence in the pursuit of further negotiations, the more as such negotiations cannot be pushed very far due to the financial situation.

- (6) A coordination in the above sense is looked upon as not profitable and even wrong and dangerous as soon as it is the expression of centralization of details in technical direction of intelligence activities, i.e., a coordination which essentially surpasses the limits of the points described in par (1) - (5). To centralize for instance the direction of intelligence operations by checking each source at the Home Office or by checking all border passages would decidedly go too far. - Such a centralization would present many dangers. One inconvenience would be that the Home Office at a distance of more than 4,000 miles from the theater of operations would be compelled to continuously ask for further reference with a considerable loss of time, if it would insist on consequently applying such a policy. It would not have an intensive survey on all details which continuously increase in number. In its action it would have more an inhibitorial tendency instead of being of help to a subordinate agency which ordinarily would react quickly enough for the purpose and in an appropriate manner.

The greatest danger, however, lies in the limitation of initiative, spirit and responsibility of the leading persons, especially on the level of field agencies. Both points endanger the service severely by producing red tape. If such red tape spreads out, every creative impulse also from the lower ranks will definitely disappear. This would finally lead to the fact that the missions will no longer be carried out satisfactorily. Thus, operations will become expensive and service clumsy.

b. Evaluation

Discussing the problem whether or not incoming raw reports should be evaluated with us, I have to stress the point that the evaluation group represents for us

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an essential tool for operational guidance according to our experience in World War II and in the period after the war. Just this peculiar interchange between the operational collection of information and the immediate evaluation supported by the evaluation of sources and the sifting procedure forms the special working method of our organization. Only this procedure enables us to lead our intelligence activities, to concentrate on the areas of main effort, to drop inefficient sources and, finally, to achieve the best results with the least possible financial means. The efficiency of the organization depends mostly on these factors.

In Detail:

- (1) It is beyond any question that the evaluation of the raw material of the Sovzone Germany ought to be carried out by the organization. This follows from the necessity to furnish the US Armed Forces in Europe currently and directly with finished reports.
- (2) It is to be doubted that the evaluation of the raw material from the satellite states and the SU can be carried out more suitably and in a more rational way in Washington. I admit that it would be possible to evaluate the raw reports in Washington, using the basic information on the submitted projects. But then the organization would be deprived of its most important means of operational guidance and would be compelled to run an unofficial evaluation group.
- (3) Besides, a sub-division of the evaluation in
Sovzone Germany here,
Satellite States and SU in Washington
would endanger the careful leading of all operations crossing from one to another geographical region. We would then, so to say, be handicapped by blinkers.
- (4) The most serious damage though would be caused by the elimination of the evaluation group with regard to the future. A future German Intelligence Service without an evaluation group in its present form would not be able to carry out its mission and can simply not be thought of.

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IV. Final Remarks

I am particularly thankful to you for your readiness to discuss all the pending problems at a period when your Home Office in Washington is still in a period of waiting and further examination. Also from our side it seems necessary to clear all basic points of our relationship to US intelligence in the future. All problems discussed by you and which I thought already cleared by the Basic Agreement are of such a fundamental importance that this exchange of ideas on the subject had to take place in order to avoid a false start in the future, thus jeopardizing the further existence of this organization.

Schmitt

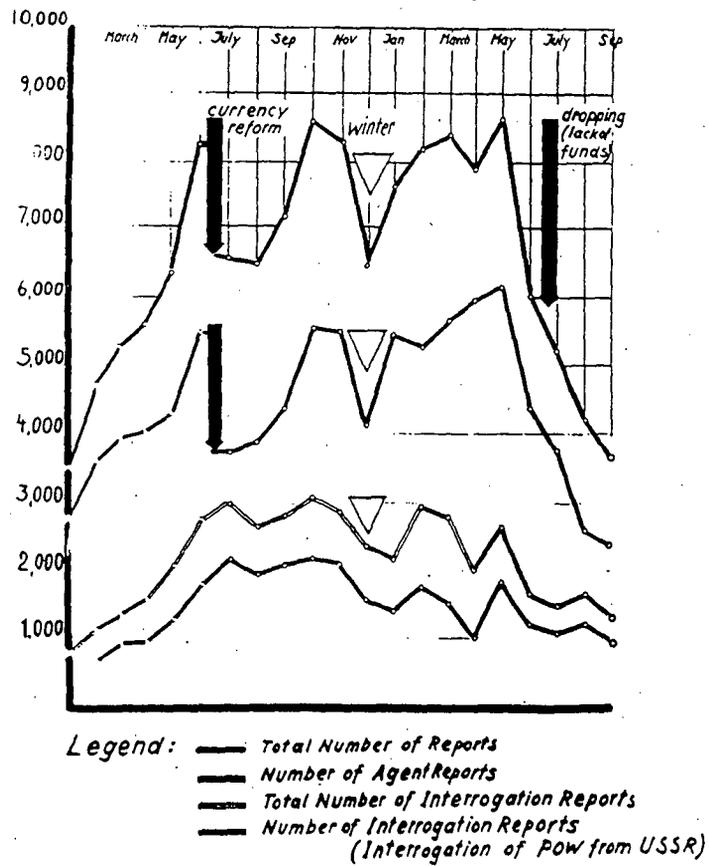
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TO GERMANY ONLY Inclosure 2

22 August 1949

TO : 20
FROM : 34
SUBJECT: Personal Data

Procurement of as extensive an information as may be obtainable to coordinate and subsequently control the activities of all who are, or may become, involved in intelligence work is a generally recognized principle in every intelligence service.

Under the present circumstances it is extremely difficult, however, to the German leaders to obtain these data or as far as they are available already place them at the disposal.

These are the fundamental reasons:

- (a) Bad experiences of the members of the former German IS during the collapse and directly afterwards.
- (b) Fear of a Soviet-Russian surprise attack which in the present moment would still take a very rapid course and bring even worse effects to the members of the Western Intelligence Services.

In view of these facts the leaders of this project had the greatest difficulties to obtain at least the greater part of the personal data of the members of the field organizations.

To the members of this project living on this side of the Iron Curtain the disadvantage of being listed in a central file was hardly balanced by the advantage of being given protection. This advantage failed completely where the members lived on the other side of the Iron Curtain. To them, such a registration only meant an aggravation of the dangerous position in which they and their families are involved, particularly in case of an armed conflict.

To obtain the available personal data was only possible to the German leaders by giving the field organizations,

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with the knowledge and consent of the CO, the following binding pledges of which the chief of ICO assumed personal responsibility:

- (1) Personal files will be locked safely and separately.
- (2) Only five associates of ICO who have charge of personnel, will be authorized to handle these files.
- (3) Passing on of the files without contacting the field organizations will be done only in case of incidents which entail measures required for the direct or indirect protection of the member concerned.
- (4) Precautionary measures will be taken which guarantee complete destruction of the files in case of emergency.

Much as this project must be interested in obtaining the approval and the funds for the submitted projects by forwarding the requested detailed personal data, this measure does not lie within the bounds of the mentioned pledges agreed upon. When the Chief of ICO delicately approached some of the leaders of the sub-organizations, he learned that in the present moment they are little inclined to hand over the personal data pertaining to the projects.

This was caused particularly by the fact that much confidence in the US officers responsible for this project until 1 July 1949 was lost for the following reasons:

- (a) Insufficient support to the work of the field organizations as resulting particularly from the fact that the low number of able American field officers did not meet all requirements.
- (b) Short-termed allocation of money which rendered impossible financial planning.
- (c) Reductions of the last months meaning for many members of the organization the deep disappointment to see destroyed the result of their work to which they had devoted all their energy for years, and which in addition put them into a precarious financial position.

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Though the German leaders of this project from the very first beginning have greatly trusted in the US representatives who have taken charge of this project since 1 July 1949, and though this confidence in the meantime has increased so as to be called unlimited, it is impossible that the same confidence should be expected already from the field organizations down to the lowest levels.

The German leaders of this project are firmly convinced, however, that the Chief of Staff 20 and his associates will by appropriate measures succeed in inspiring this complete confidence into all field organizations, even down to the lowest levels. This of course will take some time.

Only then it will be possible to find a way which may solve the problem in question: The forwarding of the personal data.

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