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recruitment of single couriers who are qualified to undertake missions into Hungary and organize small compartmentalized groups under your control. The necessary slogans and patriotic motivation can be attached to these groups by BORNHYTEI itself without the aid and participation of an insecure and uncontrollable refugee group more concerned with its political aims than with resistance to the present regime. Whether KORPONAY or the MHBK have anything to contribute which would satisfy these conditions, and whether they would be willing to meet them if they had, is the central question at this point.

4. Frankly, we are dubious now, as we have been from the first, that there will be positive results from negotiations with the MHBK or its former members. However, given the existence and ambitions of the MHBK, we see no alternative but to spend the time required to pin down its activities and control them as far as possible. We could, perhaps, take the statements, both of ZAKO to PARAGO and of KORPONAY to you, that the MHBK has no organized sources or resistance groups inside Hungary and let it go at that, but, unless we keep up directly and continuously with MHBK politics and operations, we will have to deal individually with each outside approach made by that organization. We believe that the group is as vulnerable to investigation now as it is ever likely to be.

5. At present there are three alternatives for gaining entry into the MHBK; through PARAGO, through KORPONAY, or directly through ZAKO. PARAGO has given various accounts of his recent trip abroad which are completely at odds with the facts, and has acted in poor faith with everyone concerned. It has been decided, therefore, that his continued participation could only further obscure the issue. See WASH-40517 on this point.

6. Although it may still be necessary to approach ZAKO directly, we agree that you should first follow through on the KORPONAY lead. He has acted as chief of operations for the MHBK for some time and is in a position to provide the type of information you are after. ZAKO, on the other hand, has had very little to do with the details of the MHBK's intelligence activities and would probably have to refer you back to KORPONAY or someone else on his level. Your negotiations with KORPONAY should fill in our basic information on the MHBK and put us on a firmer footing to beard ZAKO if and when that becomes necessary.

7. As you know, KORPONAY has been one of the central figures in the Koppja MHBK since its formation in 1944, and we find his alleged defection from it rather hard to swallow. Attributing his split with ZAKO to the latter's penchant for dealing with all foreign intelligence services and selling reports to them indiscriminately, smacks very much of a tongue-in-the-cheek admission of what we already know, to convince us of his sincerity. ZAKO followed much the same line in discussions with PARAGO.

8. The opening statement of KORPONAY's prospectus that "the author of this proposal did not, and does not now, have any connections with foreign intelligence agencies" is patently false. In 1946 he was instrumental in setting up the "Central Hungarian Intelligence Organization" in Hillside,

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a short-lived BIS group combining Baron Viktor ERUCHINA's network with the Kopjas, which was broken up by the British when they became aware of the fact that the FIS, through KORPONAY, was sharing the take. In early 1949 a Mr. LANNOK-BOYD, believed to represent the British MORITZER equivalent, again began negotiations with the WMBK, and the BIS was about to undertake broad support of it when they learned that KORPONAY was discussing and coordinating the negotiations with the FIS. Aside from his known work for the BIS and FIS, KORPONAY was the WMBK liaison man with CIC Austria until the substitution of Miklos LAZER in 1948.

9. All of this would tend to discredit KORPONAY's story, but we believe it would be best for the time being to make a pretense of accepting his supposed defection at face value. KORPONAY impresses us as a man who may well place his own ambitions and well-being above those of his group. By showing a personal interest in him, it may be possible to wean him from the WMBK, even though he may now be playing their game. If you consider this approach suitable, you may want to give him a spot payment of, say \$200. now for "personal expenses," and then proceed to recruit him. If you succeed, such a penetration of the WMBK would go far to satisfy the requirements stated in paragraph 2 above. This solution appeals to us as an alternative to buying up WMBK operations. Consequently we do not want you to feel that financial largesse toward KORPONAY changes our attitude toward the operational merits of the WMBK. If you can put KORPONAY on a salary, you will still be in a position to exercise strict control over any operations he may propose by holding on to the purse-strings.

10. KORPONAY's plan forwarded with WASA-499 is the usual long de horizon and is of no interest or value except as a point of reference in discussions with him. Your suggestion for a leadoff is a good one; first obtain the names of persons he would propose to staff his ambitious scheme, and check them against your own information to detect any attempt on his part to mislead you or to pass off one of the WMBK factories as an operational group. If the circumstances seem favorable, you might also want to ask KORPONAY to prove his separation from the WMBK by giving you full details on the internal organization of the WMBK, its relations with other intelligence services, the precise mechanics of WMBK reports factories, names of their members and outlets, particularly those directed toward the United States, and of present or past WMBK "clandestine" activities in Hungary.

11. Once these preliminaries have been completed, KORPONAY should be informed that his plan is too ambitious for our purposes, but he should begin rather by setting up a simple operation involving the recruitment of one courier to make one mission to Hungary and to develop one producing source. Any further expansion would depend upon his success in this venture and, of course, on confirmation through whatever checks you may be able to set up that the mission actually took place and is not merely a figment of KORPONAY's imagination.

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12. If you believe that KORDONAY is not the man to effect a penetration of the MHSK, or if his defection is genuine and he is unable to stay close enough to KOLICHYI or others still in place, please review MHSK personnel for alternate penetration openings.

13. We hope [] and BERNITIN representatives in Salzburg will continue their excellent cooperation on the KORDONAY lead, forwarding copies of progress reports to both offices in Washington as in the past. Headquarters will coordinate any new developments as they arise, and provide whatever support we may be able to give.

2 CC: Vienna