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MAS-A-1094

Gralder

Chief, Foreign Division M
Attention: []
Chief of Station, Vienna

12 December 1951

Operational
Gralder 1 Progress Report

Ref. MASA 868

1. Transmitted herewith is Gralder 1 Contact Report #3, which covers the meeting between Gralder and [] that was held in Bragens on 29 November 1951.
2. The results of this meeting were most encouraging. Gralder 1's entire attitude underwent a surprising transformation. Although there was hardly time to straighten out all of the loose ends, enough basic issues were clarified so that one can safely hold some hope for the future possibilities of the operation. Although it is impossible to judge with certainty at this time, Holderness had the impression that Gralder 1's various explanations were made honestly and sincerely.
3. It would seem that the most profitable means of exploiting Gralder, at least initially, would be to debrief him as fully as possible concerning persons of GI interest with whom he has contact. Such an effort would, at the same time, help us to unravel the myriad lines of sundry intelligence agencies that are snarled in the Verarlberg. This information would, in turn, give us a better chance to evaluate Gralder 1's precise position in Verarlberg intelligence circles, the extent and importance of his contacts, and offer us a better chance to estimate his operational potentialities along covert lines. It is possible that further checking on his present sources, when compared with more detailed information obtained from Gralder, will indicate that some of Gralder 1's present sources could be exploited in more profitable directions with our support and guidance.
4. Headquarters' traces are requested on all of Gralder 1's sources, as listed in paragraph 3-e of the attached Contact Report, with the exception of KVASHITKA and MUCKERT, both of whom are adequately covered in our files.
5. In error we have neglected to make Gralder, Gralder 1, and he will be referred to as Gralder 1 in all future correspondence.

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CENTRAL INTELLIGENCE AGENCY
SOURCE METHOD EXEMPTION 3B2B
NAZI WAR CRIMES DISCLOSURE ACT
DATE 2006

6-6-2-4235

CONTACT REPORT #2

SUBJECT: Meeting with Gralder, 29 November 1951

1. Opening of Meeting:

- a. The meeting was arranged by means of a letter to Gralder, in which a meeting was requested for 29 November at 1900 hours. Gralder replied to the letter and requested that the meeting begin at 2100 hours.
- b. Holderness arrived at Gralder's apartment at 2100 hours on the appointed day. The meeting began after a brief exchange of pleasantries.

2. Production:

None.

3. Operational Matters:

Case Officer Comment:

Prior to visiting Gralder, visited in an effort to acquire additional ammunition for the meeting with Gralder. Neither the had any traces on Gralder other than those that had been received from the Austrian Station. Moreover, there were no traces on Mail HUBERMAN, who is supposedly Gralder's chief contact with the Swiss I.S. There were a variety of traces on Major Hans HAUSMANN, whom Gralder had met on at least one occasion, but none of the traces indicated any connection between Gralder and HAUSMANN.

a. Gralder Contact with MUELLER:

- (1) Gralder reported that he had received his money from MUELLER as scheduled, but that he had received schilling, after the previous payment in D Marks, and only 1500 Schillings instead of the normal 2,000. MUELLER told Gralder that because of a missed meeting it had been impossible for him to pick up the normal payment and he had had to borrow the necessary funds from his stepfather. MUELLER had written a letter to MARIL and was certain that the funds would be forthcoming.
- (2) MUELLER was very anxious to have Gralder get as much information as possible concerning a Dr. WERNIG and a Dr. ALBACH, both of whom were allegedly in Regens. He also requested a priority effort to acquire information concerning an Edward RICHMAN, whose whereabouts were unknown. MUELLER claimed that the "Americans" (presumably through Zipper) were very anxious to obtain information concerning these three individuals and that the request was considered as a "sort of test" for both MUELLER and Gralder.
- (3) Gralder re-affirmed his belief that the money he receives from MUELLER comes from Zipper.

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b. Gralder's Relationship with KVASHITZA:

- (1) When asked how he had handled KVASHITZA as the result of the previous meeting, when it had been proved beyond a shadow of a doubt that he had been fabricating, Gralder said that he had not been able to establish much of anything. He went on to explain that he had asked KVASHITZA if he had ever been to Lichtenstein with Vladimir NANUS before he had turned in the report on such a trip to Gralder. KVASHITZA had promptly denied that he had made more than one trip and that that had been shortly before the report was given to Gralder. When asked if he had accused KVASHITZA of fabricating, Gralder replied that he had not. When asked if he had told KVASHITZA about the earlier Stragera report, Gralder lamely said that it had been alluded to in a vague sort of way. When asked what more he had said about KVASHITZA's fabricating, including his tale about the counterfeit U.S. dollars in Germany, Gralder replied by asking, "What more could I say? If I had said any more he might have made trouble for me."
- (2) Gralder said that he had asked KVASHITZA later about the counterfeit dollars and KVASHITZA had said only, "Be lazier". KVASHITZA had added that the deal must be developed slowly because it was being handled through a middleman named Dr. BRENN in Berlin. Gralder did not bother to find out who or what Dr. BRENN is.
- (3) [] told Gralder that the manner in which KVASHITZA appeared to have been handled made it seem that Gralder has no ability whatsoever when it came to agent handling. Gralder looked hurt and asked what he should have done. He was told that KVASHITZA should have been handled as roughly and honestly as the facts in the case deserved. It was explained that Gralder would have been quite free to do so because of the control he had over KVASHITZA as the result of his extensive knowledge about KVASHITZA's blackmarket and smuggling activities.
- (4) Gralder professed to be somewhat puzzled by the concept of control. [] explained briefly what control was and how it was obtained. The point was illustrated by telling Gralder that we had absolutely no qualms about being candid with him. We knew that we had enough information concerning his quasi-fabricating activities, as well as numerous reports he had turned in on the FIS, to be able to turn him with either his own government or the French if he should do anything contrary to American or our interests. [] went on to explain that Gralder had just as much control over KVASHITZA and that KVASHITZA, because of his dubious qualities, should have been made painfully aware of the fact early in Gralder's association with him.

c. Gralder's Operational Techniques:

- (1) The discussion about KVASHITZA afforded Gralder the opportunity to swear that he had never fabricated information. [] admitted that we had no definite proof that Gralder had fabricated information himself, but that we were convinced that he had allowed information to be distributed that Gralder recognized as false or misleading and that he had deliberately controlled the flow of his reports so that very old information was often passed to improve the appearance of his current production.

- (2) Gralder admitted that he had been guilty of both charges, but added that it was not a common practice and was resorted to only when absolutely necessary. He became very dejected and said that he was tremendously overworked and that his superiors seemed to be much more interested in the quantity than in the quality of his production. He added that he was pushed to produce information on the Communists, which he did not consider to be terribly important in any event, and that he had little time to devote to acquiring and checking the type of information that he considered really worthwhile.

d. Gralder and NUGENT:

- (1) In order to relax Gralder somewhat and to recheck the discrepancy between Gralder's statements to [] and the information contained in Gralder's full report on NUGENT, [] asked Gralder if he recalled when NUGENT had been recruited into the IIS. Without hesitation, Gralder answered that it had been in 1951 shortly before NUGENT returned to Austria.
- (2) When asked if he still had heard nothing about NUGENT's whereabouts, Gralder replied that he had neglected to inform [] of something at the previous meeting. Gralder then related that shortly before NUGENT had left Austria, he had given two addresses to a Herr "X", a co-worker of Gralder's and had stated that he would be at one of the two addresses. Gralder stated that he had given the addresses to HUNTLER, who presumably had passed them along to the Americans, because HUNTLER later had reported that the Americans had checked the two addresses and that one of them was correct. When asked what the two addresses were, Gralder said that he had forgotten, but that one of them was in Damascus and the other in Ankara.
- (3) [] then asked about Herr "X", who seemed to have been rather close to NUGENT. Gralder stated that he could not reveal the identity of Herr "X". Various arguments were used to convince Gralder that he should reveal the identity of Herr "X", but Gralder only changed the subject at the slightest opportunity and tried to lead the discussion into other channels. Gralder finally said that "X" was one of his best and most promising sources, but said that he could reveal no more.
- (4) [] then explained that if "X" was a source of Gralder's, it was all the more reason that we should know his identity so that we could check him for our own as well as for Gralder's protection. Gralder argued that no one knew that "X" was one of his sources and that he did not believe that our knowing would do any good because the results of our checks would not be made known to him. Gralder was promised that any information we should acquire that we considered to be of interest and value to him would be passed along, on "X" as on all of his sources. [] added that if Gralder expected to work with [] would have to learn that no secrets would be withheld for any reason and that Gralder would be expected to reveal all of his sources. When Gralder still made no effort to reveal the name of "X", he was told that [] would leave the meeting if the name was not forthcoming. Gralder thought a moment and then said that the man's name

was Friedrich LACKNER. I thanked Gralder and asked if he was willing to pull all of his source cards including the one for LACKNER. Gralder said that he was.

e. Gralder's Sources:

The following are Gralder's sources, with the alphabetical designations that he uses for them:

- ✓ Source A: KVAHNITZA
- ✓ Source B: Halter NAGEL, born HUMPELER, on 17 March 1907. Austrian citizen, Roman Catholic, single. Works both as an insurance salesman and as an employee of the "Neue Tageszeitung" in Bregenz.
- Source C: Dropped as of September 1951
- Source D: Dropped
- Source M: Dropped
- ✓ Source F: Eddi HUBERMAN, Swiss Police in St. Gallen, no card for security reasons
- ✓ Source G: Hart HUBERT
- ✓ Source H: Olaf KUNZE, born 16 June 1928 in Hamburg, Germany. Parents, Urberto and Hani nee SPITS. Single. Salesman. Residence, Bregenz-Verklester, Michael Gaismaierstrasse 13.
- ✓ Source I: Karl KROHN, no card, unwitting source.
- ✓ Source J: Gyula JUSTYER, former Hungarian Major. Works for FIS. Serves as unwitting source on FIS.
- ✓ Source K: Dr. Ernst BRASS: lives in Lindau-Batashafen, Lindenhof 19. Served with Abwehr during the war. Unwitting.
- ✓ Source L: Adolf SALTMANN, born 10 June 1907 in Dornbirn, Vorarlberg. Roman Catholic. Resides at Bregenz in Deuf 427. Former Bregenz city official. Unwitting, probably works for the French.
- Source M: Dropped
- Source N: Dropped
- ✓ Source O: Ivana HEITZER, born 11 January 1907 in Sarajevo, Bosnia. Now Austrian citizen. Resides, Bregenz, Antiplatz 43. Housewife.
- ✓ Source P: Maria FERNAN, born 3 February 1877 in Klosterhof, Estland, Russia. Former Russian Kozak riding master. Resides Bregenz on Steinbach 11. Has French Legion of Merit. Definitely works for the FIS.

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Source Q: Dropped

Source R: Dropped

Source Sch: Friedrich LACKNER; born 8 May 1906 in Neunkirchen, Lower Austria. Residence, Langens 231. Was with Abwehr during war, spent most of time in German Embassy in Madrid, Spain. Speaks fluent Spanish, English, and French. Engaged in smuggling.

Source S: Jean SANTEA, born 17 May 1908. Parents, Johann and Ottilia nee ONITROVITS. Born in Szentee, Hungary, Roman Catholic, former Hungarian Colonel. Was member KIS. Resides Bregenz, Thomas Rheinbergstrasse 18.

NOTE: The above alphabetical source designations are used by Gralder on all reports submitted to Greengrocer 1. Gralder claims that his "Centrale" knows the true identity of only about half of his present sources.

f. Gralder's Connections in Switzerland:

- (1) When asked just what his relations were with Emil HUEBEMANN and Major HAUSMANN, Gralder explained that he met HUEBEMANN "frequently" and discussed problems of mutual interest with him. Gralder claimed that he had met HAUSMANN on just two occasions. The first time was when he had been introduced to HAUSMANN by HUEBEMANN, and the second time he had seen HAUSMANN alone on a special matter. Gralder claimed that he dropped in on HAUSMANN without advance warning and that HAUSMANN was rather upset and not particularly cordial.
- (2) Gralder claimed that his contacts with HUEBEMANN were primarily for the purpose of exchanging information concerning suspicious persons who were crossing the Swiss-Austrian border, either legally or illegally. Gralder claimed that he could also get traces through HUEBEMANN.
- (3) When asked how many reports he obtained from HUEBEMANN, Gralder claimed that he got very few, but that the ones he got were always interesting. [] then requested to see copies of reports for which HUEBEMANN had been the source. Gralder told [] that he had taken all of the file copies of his finished reports to Switzerland and had given them to a friend for safe keeping. Gralder professed that he was afraid that it would be too incriminating if they were to be found in his apartment. Gralder claimed that the friend has no IS connections and that he lived just across the border, so that it was not too difficult for Gralder to travel there and to check on material needed for reference.

OFFICER COMMENT:

It is almost certain that Gralder felt that this precaution was necessary as the result of the previous meeting with [] However, [] is inclined to believe that Gralder was thinking more in terms of a fancied defense against burning by the French, instigated

by us, then in terms of our finding additional evidence of Gralder's quasi-fabricating activities. Gralder knows that we can eventually get our hands on most of his reports through various other channels.

c. The Gralder - STERNBACH - MUELLER Triangle:

(1) The discussion on this topic was within the frame of reference of the information contained in MAV-A-4835. The general statements that MUELLER had made were outlined for Gralder and he was asked for his comments.

Slightly more than a year ago

(2) Gralder claimed that MUELLER's statements were basically false and misleading. Gralder claimed that he had met MUELLER in 1947 and had recruited him and introduced him to STERNBACH. MUELLER had never been Gralder's superior nor had he ever paid Gralder operational money coming from STERNBACH's funds. Later, when MUELLER had established contact with BITSCHEAU and was receiving about 1,000 Schillings monthly from this source, MUELLER paid Gralder about 400 Schillings monthly. This was for the outright purchase of information. *slightly more than a year ago* MUELLER began to get funds directly from STERNBACH for the purchase of information. However, MUELLER was cut off from this source of revenue sometime in September 1951 because of the lack of information and the fact that BITSCHEAU had reported to State Secretary Ferdinand BRAP, who passed the information along to STERNBACH, that MUELLER was working both for the French and for Utility.

NOTE: The fact that BITSCHEAU, who has been considered French controlled, but whose present activities were somewhat of a mystery, denounced MUELLER as a French and American agent, raises the question of just what BITSCHEAU's present connections may be. It appears likely that BITSCHEAU may still have Usage connections that supposedly had been severed.

(3) Gralder claimed that he now was receiving between 1000 and 1500 Schillings monthly from STERNBACH. The amount ~~was~~ STERNBACH had claimed, because funds occasionally were received from Vorarlberg industrialists, who were interested in receiving special information.

NOTE: The story about the Vorarlberg industrialists more than likely was devised by STERNBACH in order to cover the 1000 Schillings being passed from Dillingham to Dr. STIGER to STERNBACH. (See MAV-A-4830, paragraphs 4 and 5). The major part of this 1000 Schillings is probably given to Gralder. It should be noted that at the time Greenrocer 1 ordered that the 1000 Schillings coming from "an American Intelligence unit in Germany" be cut off (MAV-A-4830, paragraph 4), the money from Zipper almost certainly was not going to STERNBACH, but directly to Gralder through MANDL and MUELLER. This flow of funds, which was raised to 2000 Schillings, is the money that Gralder still receives every month from MUELLER. All of the efforts of [] to cut off this revenue from Zipper have failed.

b. Gralder's Status with AIS:

- (1) After the above discussion of Gralder's connections to STREIBACH and MUELLER, Gralder suddenly asked [] what [] and his superiors thought of Gralder. He requested that [] be completely frank. [] told Gralder that we felt that he was very slipshod in his reporting and in the handling of his agents and that he would need a great deal of training before he would be competent to handle covert operations. [] added that we felt that Gralder was potentially valuable because of his geographical location and his many contacts. We also appreciated the fact that he seemed to have a great deal of energy and drive that could be worthwhile if turned to more profitable pursuits than his present type of reporting.
- (2) [] then told Gralder that one thing that had passed us in our relationship with him was whether or not he really wanted to work with us. Gralder said that he originally had not been enthusiastic about the idea, but had changed his mind because he had learned that we were honest and knew what we were doing. He went on to say that his original experience with the AIS in the form of Gragera had been a very unpleasant one and that he had gained a bad impression of the AIS. He added that he thought we were entirely different. He said he would be happy to receive our support and promised that he would be honest with us and do whatever was requested of him.
- (3) Gralder went on to say, in a surprisingly humble tone, that if we wanted to support him we should not expect too much at first. He explained that he was aware of his shortcomings and felt that he was not really trained even for the police job he was doing. He said that he had had no specialized training in his entire career, but was, nonetheless, expected to perform jobs that required special training. He said that he had learned, to some extent, by practical experience, but only after very bad blunders and much inefficiency. He said that if we understood this and were willing to give him the training that he needed, in order to be able to perform the tasks demanded of him he was sure that, with time, he could prove himself to be worth our trouble. He said that he was willing and anxious to learn and hoped that we would give him the opportunity to do so.
- (4) At this point, Gralder was told that [] was leaving Austria for a period of about three months. [] further stated that in view of Gralder's honesty and cooperation at the meeting, it was certain that Gralder would be able to work for us on a trial basis when [] returned. Gralder said that it was a pity that [] would be leaving just when an understanding had been reached, but that he would be looking forward to the chance to work for us when [] returned.

1. Going Instructions for Gralder:

Gralder was given the following instructions to cover the period of []' absence:

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- (1) Gralder would be contacted in the normal manner when [] returned to Austria, probably no later than the first week of April. Time would be allowed for Gralder to confirm the proposed meeting date and time.
- (2) In the event of any emergency, Gralder could communicate with [] headquarters by writing to the normal letter box, which would be serviced during the absence of []

NOTE: For psychological reasons, [] felt it better not to go through the formality of giving Gralder instructions to cover the possibility that something might happen to [] and that someone else would have to take over the contact. It is quite possible that Gralder would have misinterpreted such instructions and felt that [] had broken off contact in order to think the whole thing over, or in order to turn Gralder over to some other American agency. In the unlikely event that anything should happen to [] it would be a simple matter to give new contact instructions to Gralder through the established letter channel.

4. Close of Meeting:

- a. The end of the meeting was taken up with a half-hour discussion of the war and the Soviets. Gralder talked about his battle experiences and gave [] some vivid demonstrations of his tactical concepts by rearranging the living room furniture and drawing complicated maps. Gralder expounded his views on the storming of bunkers, the qualities of the Russian as a soldier, partisan warfare, and the simplicity and superiority of Soviet infantry weapons. Gralder made good sense and he seemed to be surprisingly well informed.
- b. [] was pleasantly surprised by an insight into Gralder's honesty, which was afforded by his candid admission that he had never seen combat until late 1944. A small insight, perhaps, but in view of his personality it would have been so simple to have claimed more extensive combat experience.
- c. [] expressed his appreciation for Gralder's lively demonstration and discussion by presenting him with a copy of a new book on General Vlassov that [] wanted to have along. Gralder expressed his appreciation and took the occasion to show [] his modest collection of books on intelligence and police work. Gralder stated that he had always been disappointed that there was so little literature in the field, because it cut down his chance of profiting by others' experience.
- d. After an exchange of pleasantries and farewells, [] left the meeting at 0140 hours.

[]