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INTELLIGENCE

A collection of articles on the theoretical, doctrinal, operational, and historical aspects of intelligence.



Celebrating 50 Years:
From the OSS to the CIA

An OSS Hero

VOL. 41, NO. 1, 1997

Jed Team Frederick

**AN ALLIED TEAM WITH THE FRENCH
RESISTANCE IN 1944 (U)**

Robert R. Kehoe

Significant Military Support

**THE OSS AND THE ITALIAN PARTISANS IN
WORLD WAR II (U)**

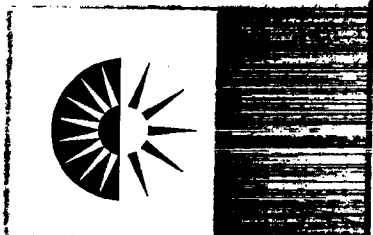
Peter Tompkins

A Controversial Liaison Relationship

**AMERICAN INTELLIGENCE AND THE GEHLEN
ORGANIZATION, 1945-49 (S)**

Kevin C. Ruffner

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C O N T E N T S

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Cover

Sgt. Robert R. Kehoe (at right) receiving the Distinguished Service Cross in November 1945 from General Magruder (at left), General Donovan's successor.

*A Controversial Liaison Relationship***American Intelligence and the Gehlen Organization, 1945-49 (S)**

Kevin C. Ruffner

“
As the Soviets drew closer to Berlin, Gehlen dispersed his staff and transferred the FHO's intelligence files to secret locations in Bavaria. There, Gehlen and his handpicked officers waited to surrender to American forces.
 ”

Kevin C. Ruffner, a member of the History Staff, is on a rotational assignment with the Counterintelligence Center.

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The CIA's sponsorship of the nascent West German intelligence service in mid-1949 marked an expansion into uncharted operational waters.¹ This new direction irrevocably linked the CIA with former members of the General Staff of the defeated *Wehrmacht* and Nazi Germany's intelligence services, some of whom had notorious wartime reputations.² The Agency made this decision after a long-running debate with the US Army about the wisdom of supporting a resurrected German General Staff and a quasi-independent national intelligence organization. (U)

The story behind CIA's involvement with the Gehlen Organization actually started during the ebbing hours of World War II. With the Soviets fighting in the streets of Berlin and the British and Americans racing across the shell of the Third Reich in the spring of 1945, many German officials realized the desperation of their cause. Reinhard Gehlen, the former chief of the German Army's intelligence branch dealing with the Eastern Front and Soviet forces, planned to survive Hitler's *Gottterdammerung* as the 1,000-year Reich crumbled. Like most Germans, Gehlen preferred surrender to the Western Allies as opposed to an uncertain fate at Russian hands. (U)

Born in 1902, Gehlen entered the *Reichswehr*, the Weimar Republic's small army, shortly after the end of the World War I. He advanced through the officer ranks and joined the General Staff as a captain in 1936. During the invasion of Poland

three years later, he served as a staff officer in an infantry division where his organizational planning and staff work attracted the attention of senior officers. By mid-1942, Gehlen took charge of the German Army High Command's *Fremde Heer Ost* (FHO or Foreign Armies East), with the responsibility of preparing intelligence on the Soviet Union. Gehlen's work in this position eventually incurred the wrath of Hitler, who rejected Gehlen's pessimistic reports about the strength and capabilities of the Soviet Army. Hitler summarily dismissed Gehlen, now *Generalmajor*, in April 1945. (U)

Gehlen did not leave Berlin empty-handed. He knew that the FHO had some of the most important files in the Third Reich and that the possession of these records offered the best means of survival in the post-Hitler period. As the Soviets drew closer to Berlin, Gehlen dispersed his staff and transferred the FHO's intelligence files to secret locations in Bavaria. There, Gehlen and his handpicked officers waited to surrender to American forces. Gehlen believed that the Western Allies and the Soviet Union, while wartime partners, would soon become peacetime rivals. With his knowledge about the Russians, combined with the FHO's collective resources, Gehlen felt he could influence relations between the East and West and help shape Germany's role in postwar Europe.³ (U)



Gen. Gehlen (on right) with a group of enlisted men in 1943. (FOUO)

The US Army Picks Up Gehlen

Even before Nazi Germany's capitulation, Allied forces were on the lookout for German officers and enlisted personnel with intelligence backgrounds. Indeed, as the Americans looked for Gehlen, he tried to surrender to an American unit. After a circuitous route, the US Army finally delivered Gehlen and his men to the 12th Army Group Interrogation Center near Wiesbaden in June 1945. Interned at the "Generals' House," Gehlen reassembled his staff and files under the overall direction of Army Capt. John R. Boker, Jr. (U)

Boker, who had previously interrogated other German officers, expressed his feelings as he started his interrogation of General Gehlen. "It was also clear to me by April 1945 that the military and political situation would not only give the Russians control over all of Eastern Europe and the Balkans but that, as a result of that situation, we would

have an indefinite period of military occupation and a frontier contiguous with them."⁴ Boker quickly became the 12th Army Group's resident expert on the Soviet Army because of his interrogation of German officers who had fought on the Eastern Front. (S)

Gathering Gehlen's staff and records required some subterfuge on Boker's part. He was aware, from previous experience, that "there existed in many American quarters a terrible opposition to gathering any information concerning our Soviet Allies." He did, however, gain the support of Col. Russell Philp, commander of the Interrogation Center, and Brig. Gen. Edwin L. Sibert, G-2 for the 12th Army Group, to employ the former FHO staff members to produce reports on the Soviets.⁵ Gehlen also wanted Boker to establish contact with some of his frontline organizational elements, such as *Oberstleutnant* Herman Baun, who commanded *Stab Walli I*, which

conducted espionage work against the Soviets using Russian defectors and provided raw intelligence to Gehlen's FHO.⁶ Gehlen insisted that he had access to still-existent agent networks in the Soviet Union through Baun's sources. (S)

Army headquarters in Washington learned about Gehlen's activities at Wiesbaden and, after some debate, Boker received orders to bring the German group to the United States. Army G-2's primary interest, however, centered on the retrieval and analysis of the FHO records, not in its personnel. Boker, who had become quite attached to his project, resented losing control of Gehlen and his staff section after their secret departure for Washington on 21 August 1945. Placed as virtual prisoners in a classified building at Fort Hunt, Virginia, (known simply as P.O. Box 1142), the Army planned to use Gehlen in conjunction with a larger project being conducted at Camp Ritchie, Maryland, to compile

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Maj. Gen. Edwin L. Sibert (U)

a history of the German Army on the Eastern Front. (S)

Through Boker's efforts (he accompanied Gehlen's group to the United States) and those of officials with the East European Order of Battle Branch at the Pentagon, the situation for the Germans gradually improved. The BOLERO Group, as Gehlen's unit became known, served under the direction of Army Capt. Eric Waldman until its return to Germany in June 1946. By this point, Gehlen's men not only prepared reports based on German records but also had access to and commented on American intelligence reports. (S)

SSU Rejects Gehlen

While the Army exploited Gehlen and his officers in Washington, US intelligence also sought to question German scientists and engineers about Nazi rocket and atomic developments. The OSS, however, played

little role in these activities. In the throes of disbandment during the fall of 1945, OSS declined the Army's invitation to employ Baun in Germany. The new Strategic Services Unit (SSU) also expressed some reluctance about using the German FHO for American intelligence purposes.⁷ SSU, however, did try to determine the exact nature of the relationship between Gehlen and Army intelligence. On 25 October 1945, Crosby Lewis, SSU's new chief of mission in Germany, asked [redacted] for "Special Sources" information from counterintelligence files pertaining to *Stab Walli* and various German personalities, including Baun and Gehlen. Writing hastily, Lewis

(b)(1) informed [redacted]
(b)(3)(n)

*For your information only, Baun and a group of other members of Fremde Heere Ost, experts in the G.I.S. on espionage against the Russians, are being collected by two officers of the G-2 section, USFET, who are responsible only to Gen. Sibert. It appears likely that Sibert got an OK from Washington on this when he was in the U.S. last month, at which time it appeared that OSS might fold up. Von Gehlen and several high-ranking staff officers who operated for Fremde Heere Ost and for some of the Army Group staff on the Eastern Front during the war have been flown to the U.S.—all this without any contact with the OSS here.*⁸ (S)

In early January 1946, SSU in Germany reported to Headquarters what it had learned "through discreet inquiries" about the Army's activities. SSU described the flight of Gehlen and his FHO staff from

Berlin and their activities with the Americans. The report also stated that Gehlen had recommended that Herman Baun be contacted to provide further information about the Soviets while the general worked in the United States. Baun, in fact, had been arrested by the US Army as a "mandatory arrestee" (members of Nazi party organizations and high-ranking German Army and SS officers were subject to immediate apprehension by the Allies) in late July 1945 and interrogated at the 3rd Army Interrogation Center the following month. The announcement of his arrest and the distribution of a Preliminary Interrogation Report raised great concern at Army G-2 because the Soviets now demanded the extradition of both Baun and Gehlen.⁹ (C)

The Army refused to accede to the Soviet demand and secluded Baun and several other FHO personnel at the Military Intelligence Service Center (MISC) at Oberursel on the outskirts of Frankfurt (also known as Camp King and later officially designated as the 7700th European Command Interrogation Center). The small group, including Gerhard Wessel, who had succeeded Gehlen as the head of FHO in 1945, was quartered at the "Blue House," where Baun planned to develop a full-scale intelligence organization. According to SSU, G-2 wanted to use Baun to resurrect his *Abwehr* network against the Soviets. This proved difficult and SSU reported that it "advised them [the US Army] to interrogate Baun at length and have nothing to do with his schemes for further intelligence activity."¹⁰ (S)

In November 1945, in fact, Lewis responded to a request by General Sibert that SSU take over Baun's

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**By October 1946, Gehlen
 and Baun claimed to have
 some 600 agents operating
 throughout the Soviet zone
 of Germany. . . .**
 ”

operation from the Army. After reviewing Baun's plans, Lewis rejected them outright, calling them "rather grandiose and vague suggestions for the formation of either a European or worldwide intelligence service to be set up on the basis of wartime connections of *Oberst* Baun and his colleagues, the ultimate target of which was to be the Soviet Union." Lewis found a number of shortcomings with the employment of Baun, including cost, control, and overall poor security measures. The fact that the Russians wanted to question Baun and Gehlen, as well as other German intelligence figures, also did not sit well with Lewis. ¹¹ (S)

Meanwhile, Boleslav A. Holtsman, a SSU/X-2 counterintelligence officer in Munich, had interrogated another officer of *Stab Walli*, *Oberst* Heinz Schmalschlager, about German intelligence activities against the Russians. In fact, SSU felt that Schmalschlager was a better source of information on German intelligence activities on the Eastern Front than Baun, a Russian-born German. ¹² Despite SSU's advice that the Army dismiss Baun and reduce its reliance on FHO-derived intelligence, the opposite took place. Baun thrived under US Army auspices and he established a service to monitor Soviet radio transmissions in the Russian zone in January 1946. Two months later, Baun received further authorization from the Army to conduct both positive and counterintelligence activities in Germany. ¹³ (S)

Operation RUSTY

In July of that year, the Army returned General Gehlen and the

intelligence on the Russian order of battle. ¹⁷ (S)

As the Army's demands grew, Operation RUSTY transformed from a select cadre of German General Staff officers to large group that suffered from poor cohesion and mixed allegiances. In addition to covering the Soviet zone, Operation RUSTY took on new missions in Austria and other areas of Europe as well as broadened wartime contacts with anti-Communist émigré groups in Germany and with members of the Russian Vlasov Army. The few American officers assigned to the Blue House barely knew the identities of RUSTY agents, thus making it difficult to confirm the validity of German reporting. Baun's recruiting and training of his agents proved haphazard while their motivation also raised questions because of their black market activities. Throughout the Western Allied zones of Germany, men and women openly claimed to be working for American intelligence, leading to many security breaches which undermined RUSTY's overall effectiveness. ¹⁸ (S)

remaining FHO members to Germany. At this point, Lt. Col. John R. Deane, Jr., Operations Officer at MISC, published his plans to merge Gehlen's BOLERO group with Baun's already-existent staff, known as KEYSTONE, at Oberursel. General Gehlen would coordinate the functions of both elements of the German organization while he had direct responsibility for the Intelligence Group. This element evaluated economic, military, and political reports obtained by agents of Baun's Information Group. ¹⁴ The Army designated the entire organization as Operation RUSTY, under the overall supervision of Col. Russell Philp, Lt. Col. John R. Deane, Jr., and Capt. Eric Waldman, who had preceded Gehlen's return to Germany from Washington. ¹⁵ (S)

Gehlen's reports, Deane expected, "will be of great value to the G-2 Division in that they will furnish the closest thing to finished intelligence that can be obtained from sources other than U.S." ¹⁶ Deane's optimistic outlook indeed spurred the Army to submit even greater number of requests to Operation RUSTY. Baun quickly expanded his collection efforts to meet the Army's insatiable appetite for information on the new Soviet threat in Europe. By October 1946, Gehlen and Baun claimed to have some 600 agents operating throughout the Soviet zone of Germany who provided the bulk of

Lacking internal control and American oversight, Operation RUSTY turned out to be an expensive project. By mid-1946, the Army found itself running out of funds and it once again tried to persuade SSU to take over the operation following Gehlen's return to Germany. On a tour of SSU installations in Germany, Col. William W. Quinn, SSU's director in Washington, DC, conferred with General Sibert and Crosby Lewis about the Army's proposal. Once again, Lewis repeated many of his objections that he had made earlier in the fall of 1945 and he suggested that SSU make a "thorough study" before any decision by

Headquarters.¹⁹ In early September, Lewis specified in writing to General Sibert the conditions in which SSU would be prepared to assume responsibility for Operation KEYSTONE.²⁰ Lewis emphasized the need for US intelligence to have complete access to all German records and identities of leading personalities and agents for initial vetting.²¹ (U)

Neither Crosby Lewis, SSU's chief of mission in Germany, nor any other American official expressed any doubt about employing America's former enemies as sources of information. The Americans, for example, had embarked upon a large-scale project using German officers to write about their wartime experiences. The Army's German Military History Program, for example, continued until the mid-1950s and influenced US Army doctrinal and historical writing.²² The debate about Gehlen's project, as it became shaped since 1945, revolved around more practical matters, such as cost and security. Crosby Lewis summarized his thoughts about RUSTY for Col. Donald H. Galloway, Assistant Director of Special Operations, in September 1946:

It is my opinion that SSU AMZON should be given complete control of the operation and that all current activities of this group be immediately stopped before further security breaches nullify the future usefulness of any of the members of the group. I further recommend that an exhaustive study be made along CE lines of the entire operation, past and present, so that at least, if it appears that the group is too insecure to continue an operation,

*the wealth of intelligence which is contained in the minds of the various participants as regards Russia, Russian intelligence techniques, and methods of operation against the Russians, could be extracted. In conclusion, however, it is most essential that if a final decision is made to exploit these individuals either singly or as a group, SSU understands that their employment in the past and their exploitation in the future constitutes to a greater or less degree the setting up of an incipient German intelligence service.*²³ (S)

On the conclusion of General Sibert's tour as G-2 in Europe, the debate about whether a civilian intelligence agency should be responsible for Operation RUSTY shifted from Germany to Washington. Maj. Gen. Withers A. Burress, Sibert's successor as the Army's chief intelligence officer in Germany, appealed to Lt. Gen. Hoyt S. Vandenberg, formerly Army Chief of Staff for Intelligence and now Director of Central Intelligence, that the newly formed Central Intelligence Group (CIG) assume control of RUSTY. His memorandum, supported by extensive documentation, noted that the Army's headquarters in Germany considered RUSTY to be "one of its most prolific and dependable sources."²⁴ (C)

General Vandenberg, in turn, directed that the CIG take a fresh look at RUSTY. On 16 October 1946, CIG presented its summary of the Burress material and dismissed Gehlen's Intelligence, or Evaluation, Group as "drawing broad conclusions from inadequate evidence and a strong tendency to editorialize."



Lt. Gen. Hoyt S. Vandenberg (U)

Regarding Baun's Information Group, CIG determined that "there is no evidence whatsoever which indicates high-level penetration into any political or economic body in the Russian-occupied zone." The re (b)(1) also blasted Operation RUSTY (b)(3)(c) its yearly budget of [redacted] (b)(3)(n) while CIG's German Mission (b)(3)(n) only [redacted] CIG decidedly rejected assumption of RUSTY, although it did call for a full study in order to identify salvageable aspects of the operation. The report made two significant comments that reflected CIG's overall frame of mind:

1. It is considered highly undesirable that any large scale US-sponsored intelligence unit be permitted to operate under even semi-autonomous conditions. Unless responsible US personnel are fully acquainted not only with the details of each operation carried out but also with the

identities and background of all individuals concerned, no high degree of reliability can be placed from an American point of view upon the intelligence produced.

2. One of the greatest assets available to US intelligence has always been the extent to which the United States as a nation is trusted and looked up to by democratic-minded people throughout the world. Experience has proven that the best motivation for intelligence work is ideology followed by common interests and favors. The Germans, the Russians, their satellites, and, to a lesser extent, the British, have employed fear, direct pressure of other types, and, lastly, money. With most of these factors lacking to it, Operation RUSTY would appear to depend largely on the last and least desirable.²⁵ (C)

The Bossard Report

In a letter to General Vandenberg in October 1946, Colonel Galloway reiterated CIG's concerns about RUSTY's costs and questions about its security. He recommended that CIG not take over the operation.²⁶ The Army and CIG, however, agreed in the fall of 1946 that the CIG could conduct its own examination of RUSTY. As a result of discussions held in New York City in December, Samuel B. Bossard arrived at Oberursel in March 1947 to evaluate the German operation and its future potential.²⁷ Unlike Crosby Lewis, Bossard had a different, and favorable, impression of Operation RUSTY during the course of his

two-month study. "The whole pattern of operation," Bossard proclaimed in the first paragraph of his report, "is accordingly positive and bold; the factors of control and risk have become secondary considerations and thus yield to the necessity of obtaining information with speed and in quantity."²⁸ (S)

In a stunning reversal of earlier criticism of RUSTY, Bossard compared the operation to the wartime work of OSS with various Resistance groups where results mattered more than control. He dismissed "the long bill of complaints prepared by our own counterintelligence agencies against the lack of security in this organization." Bossard declared, "in the end [this] serves more as a testimony to the alertness of our counter-intelligence agencies and a criticism of our own higher authorities for not effecting a coordination of interests than a criticism of the present organization and its operating personnel."²⁹ (S)

Bossard's report marked the first time that either SSU or CIG had the opportunity to examine on its own the operation and to question both Gehlen and Baun as well as other members of the German operation. Impressed with the anti-Communist sympathies of the Germans and the breadth of their contacts (especially with various émigré groups), Bossard found "no evidence to prove that the unusual confidence that had been placed by American authorities in the German operators had been abused." Bossard made eight recommendations to the DCI, with the bottom line being that the CIG should take responsibility for RUSTY.³⁰ (S)

Bossard believed that Operation RUSTY had proven to be a useful



R. Adm. Roscoe H. Hillenkoetter (U)

anti-Communist intelligence organization. If the United States abandoned RUSTY, it would still have the same intelligence requirements as before, although with fewer resources. Likewise, American control of the German operation could only strengthen the overall project and reduce its security risks. Bossard felt that Operation RUSTY offered the Americans a readymade, knowledgeable German intelligence service that formed a "strong core of resistance to Russian aggression."³¹ (S)

Bossard's findings unleashed a flurry of activity in Washington during the summer and fall of 1947. On 3 June, Colonel Galloway recommended to R. Adm. Roscoe H. Hillenkoetter, who had just taken over as DCI from General Vandenberg, that he approve the Bossard Report. Galloway added that CIG's takeover of RUSTY should be cleared through the G-2 in Germany and brought to the attention of the National Intelligence Authority, predecessor to the

National Security Council. Colonel Galloway remained concerned that support of the German intelligence service could conflict with both State Department policies in dealing with a "potential resistance group" as well as interfere with the signals intelligence work of the US Army and Navy.³² (S)

A few days later, Admiral Hillenkoetter prepared a memorandum for the Secretaries of State, War, Navy, as well as President Truman's personal representative to the National Intelligence Authority on Operation RUSTY. It outlined the organization's history and CIG's earlier examination into the question of assuming responsibility. In his cover memorandum, Admiral Hillenkoetter expressed the "strong" recommendation that "Operation RUSTY be liquidated and that CIG assume no responsibility for its continuation or liquidation."³³ Hillenkoetter felt that the CIG should have no connection with RUSTY without the knowledge and approval of the National Intelligence Authority. (S)

Hillenkoetter's recommendation raised a furor in Army circles, and he held a high-level conference on 19 June 1947 to discuss Army-CIG relations and Operation RUSTY. Having been shown the proposed NIA memorandum outlining Hillenkoetter's rejection of RUSTY, Maj. Gen. Stephen J. Chamberlin, the Army's Director of Intelligence, asked that the document be withdrawn in its entirety. He stated that he did not plan to discuss the matter even with the Secretary of War. Consequently, the Army momentarily relented in its efforts to have CIG assume responsibility for RUSTY. Hillenkoetter warned Chamberlin

about the national security risks posed by the US support of a resurgent German General Staff and intelligence service. General Chamberlin agreed that this perception created problems and promised to have Maj. Gen. Robert L. Walsh, the Army's G-2 in Germany, oversee tighter control over the operation.³⁴ (S)

While the CIG and the Army debated the merits of Operation RUSTY in Washington, Lt. Col. Deane at Oberursel oversaw the almost-daily growth of Gehlen's intelligence service. The rapid expansion of agents and reports in 1946 presented a challenge in terms of control and quality. General Gehlen, upon his return that summer, discovered that Baun had his own plans for a German intelligence service which did not meet with Gehlen's approval. Baun's ambitious grasp for control of the organization, coupled with mounting questions about his agents and finances, resulted in his gradual removal by the Americans and Gehlen during the course of 1947.³⁵ The Army, in the meantime, did take some steps to improve its control over RUSTY, including the formation of a military cover organization, the 7821st Composite Group.³⁶ Immediately before RUSTY's transfer from Oberursel to its own compound in Pullach, a small village near Munich, in the late fall of 1947, Lt. Col. Willard K. Liebel replaced Deane as Operations Officer.³⁷ (S)

CIA's Misgivings

There was still little enthusiasm for RUSTY after the establishment of the CIA in the fall of 1947. [redacted] who had served as chief of

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the German Mission's Security Control (or counterintelligence) branch in 1946-47, provided an update to Richard Helms, chief of Foreign Branch M (which handled CIA's operations in Central Europe), in mid-March 1948 about the German intelligence organization's activities. [redacted] observed that while RUSTY "enjoys the unqualified backing of the Army in Germany," he felt that the Soviets must have penetrated the German group. "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," [redacted] declared. Likewise, he was concerned about "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."³⁸ (S)

(b)(1)
(b)(3)(c)
(b)(3)(n)

summary (b)(3)(c) presented the viewpoint of many CIA officers:

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, 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.⁴¹
(S)

With great disgust, (b)(3)(c) acting chief of CIA's Karlsruhe operations base, related his experiences with RUSTY in an August 1948 memorandum to Headquarters.

(b)(3)(c) first encountered Baun's operatives in the summer of 1946 when the Army's Counterintelligence Corps (CIC) arrested a number of Germans who claimed to work for American intelligence. CIC inform (b)(3)(c) about these arrests, and he launched an investigation as to the background of the German agents. He found that "some of the agents employed were SS personnel with known Nazi records and, in most cases, undesirable people. Recruiting methods then employed," he complained, "were so loose that former German officers and noncoms were blindly being approached to work for American intelligence in espionage activity directed against the USSR."³⁹ (S)

RUSTY's approach went against all principles of intelligence work. "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 (b)(3)(c) felt that RUSTY's "recruiting methods indicated a highly nationalistic group of Germans who could easily become the nucleus [sic] of serious subversive activity against any occupying power. At the same time, (b)(3)(c) commented, "the distribution of operational supplies, money, etc. was so loose and elaborate that the influence on the black market certainly was considerable."⁴⁰ (S)

(b)(3)(c) expressed his displeasure with RUSTY and protested any plans for future association between this group and CIA. In a lengthy

(b)(3)(c) formerly SSU's X-2 chief in Germany and now head of CIA's Munich operations base, reported his views of RUSTY in a July 1948 memorandum to (b)(3)(c) CIA's chief of mission in Germany. Like his colleague (b)(3)(c) protested

(b)(3)(c)
(b)(3)(n)

no question that the Russians know this operation is going on even though they may have some of the details wrong." Helms added, "certainly the fact that so much publicity has been given to this indicates serious flaws in the security of the operation."⁴³ (S)

Little by little, however, the Army managed to get CIA more involved with RUSTY, despite complaints from the field and even Admiral Hillenkoetter's overall opposition to the project. In December 1947, General Walsh again brought up the issue of CIA's taking over of RUSTY with (b)(3)(c) then CIA's chief of base in Berlin. Walsh maintained that, while the handling of RUSTY by the Army in 1947 might have been considered a "sin of commission," for the Americans not to continue the operation in 1948 would constitute a "sin of omission."⁴⁴ (S)

RUSTY's poor security practices and its "freewheeling" methods of agent recruitment (b)(3)(c) expressed particular distaste at RUSTY's abuse of the denazification laws which undermined the operation's overall standing. (b)(3)(c) quoted a "local cynic" who said that "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."⁴² (S)

In summarizing the sentiments of Agency officials in Germany, Richard Helms told Colonel Galloway in March 1948 that "nothing about RUSTY has been altered which could 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

As late as mid-1948, Admiral Hillenkoetter resisted the Army's overtures to assume control of RUSTY. In July 1948, the DCI informed the Army's Director of Intelligence that he did not want the Army to use a 1946 letter of agreement between the War Department and CIG to obtain services, supplies, and equipment for the 7821st Composite Group, the Army's cover organization for RUSTY. Hillenkoetter believed that a new, and separate, agreement should be drawn up between both organizations to support the Army's requirements for RUSTY.⁴⁵ (S)

At the same time, Hillenkoetter provided General Chamberlin with some news about RUSTY that he had learned from various sources. In one case, Samuel Bossard, now in England, had received a letter from a

mysterious "R. Gunner" about "some dangerous points." Gunner, believed to be General Gehlen, asked for Bossard's "personal advice concerning certain business questions" and wanted him to come to Munich.⁴⁶ Disagreements between Gehlen and his American military counterpart, Lieutenant Colonel Liebel, now made their way to the highest levels of CIA. The entire project appeared on the verge of disintegration.⁴⁷ (S)

The Critchfield Report

Matters soon came to head which forced the CIA to act whether it should maintain a German intelligence organization. While the Army issued RUSTY with priorities in terms of targets and regions, Major General Walsh, the Army's chief intelligence officer in Germany, informed Admiral Hillenkoetter in October 1948 that the Army could no longer fund RUSTY for any activities other than order of battle intelligence.⁴⁸ During a visit to Germany, the DCI discussed the matter with Walsh and agreed to provide limited funds while CIA conducted yet another investigation of the Army's German operation. Immediately before Admiral Hillenkoetter's agreement with the Army, Colonel Galloway and (b)(3)(c) conferred about RUSTY. They concluded that the Agency needed to begin penetration efforts against RUSTY, "or at least [be] carefully watched and reported upon, and that we should pay particular attention to its attempts to become the official German intelligence service."⁴⁹ (S)

The die was now cast, leading CIA down a long path that has now indelibly linked the Agency with General



Col. James H. Critchfield. Photo courtesy of James H. Critchfield. (U)

Gehlen and his intelligence service. On 27 October 1948, Colonel Galloway (b)(3)(c) that he wanted James H. Critchfield, the newly arrived chief of Munich operations base, to examine RUSTY and prepare a report similar to that done by Bossard in 1947. Critchfield's mandate specified that he should evaluate RUSTY's OB facilities and determine which elements should either (b)(1) [redacted] exploited, left (b)(3)(n) with the Army, or liquidated. The report, Galloway noted, should be thorough but also completed within a month.⁵⁰ (S)

Critchfield, a young US Army combat veteran, had served in military intelligence staff positions in both Germany and Austria when he joined the new CIA in 1948. He embarked on his new project with vigor and met his deadline when he cabled a summary of his findings to

Washington on 17 December.⁵¹ His full report, with annexes, arrived at Headquarters after that point. An extensive study, Critchfield and several associates examined the Army's relationship with RUSTY, its funding, organizational structure, intelligence reporting, overall operations and procedures, and Gehlen's own future projections for his group. Critchfield's report stands as the CIA's (and its predecessors) most thorough review of the growing German intelligence service.⁵² (S)

Critchfield's report also set the tenor for future CIA relations with Gehlen. While he made several important points, Critchfield observed that CIA could not ignore the presence of RUSTY. He wrote:

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 the 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.⁵³ (S)

As Critchfield pointed out, RUSTY was a *fait accompli*, regardless of whether CIA wanted the German organization or not. He advocated the Agency's assumption of RUSTY

because "from an 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."⁵⁴ Admiral Hillenkoetter, however, reluctantly agreed to this move and made it clear that "CIA was not asking to take over Rusty and was expressing a willingness to do so only because the Army was requesting it."⁵⁵ (S)

Gen. Omar Bradley, the Army's Chief of Staff (and soon-to-be Chairman of the Joint Chiefs of Staff) and Secretary of Defense James V. Forrestal both supported the Agency's move, as did individual members of the National Security Council. Throughout the first months of 1949, the Agency, the Department of the Army, and Gen. Lucius D. Clay, US military governor of Germany, debated the issue of the CIA's assumption of RUSTY.⁵⁶ Likewise, Critchfield in Pullach had his hands full with an ongoing dispute between Gehlen and Colonel Philp, the new US Army commander on the scene.⁵⁷ With General Clay's departure from Germany in May, the Agency assumed control on 1 July 1949.⁵⁸ (S)

CIA's Trusteeship

Even before the official transfer in mid-1949, Critchfield specified the terms of agreement between the CIA and the German organization. The basic agreement reached by Critchfield and Gehlen in June 1949 recognized that "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."⁵⁹ (S)

Critchfield acknowledged that "the 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 combating Communism." Yet, the Agency's chief of base insisted that until Germany regained its sovereignty and the two countries made new arrangements, the CIA would remain the dominant partner and call the shots. Critchfield, for example, would specify US requests to Gehlen for intelligence priorities and that "complete details of operational activities will be available to US staff." While US officials would deal with the Germans in "an advisory and liaison capacity," Critchfield planned to closely examine the Gehlen Organization. "All operations outside of Germany will," Critchfield noted, "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."⁶⁰ (S)

(b)(1) Relations between the Agency and German intelligence service (known (b)(3)(n) variously as [redacted] and ZIPPER) during the first half of the 1950s were often at odds.⁶¹ Gehlen resented the American intrusion, which was far more sweeping than the Army's. In 1950, for example, Critchfield reduced the number of Gehlen's projects from 150 to 49, and he soon whittled this latter number to 10. CIA cut the vast bulk of German projects for nonproduction of any worthwhile intelligence or even possessing any potential value.

Critchfield bluntly told Gehlen in 1950 that "it was high time he recognized the fact that his organization, while viewed in a most creditable light for its tactical collection and especially its military evaluation work, was considered definitely second class in any intelligence activity of a more difficult or sophisticated nature, and that if he had any aspirations beyond that of producing a good G-2 concern for the future German Army, some drastic changes were in order."⁶² (S)

While the CIA and its predecessors had long protested against the use of the German intelligence service, the American service soon found itself defending its own ties to the Gehlen Organization. As early as 1953, the two agencies had become so entwined that even Roger M. Keyes, Deputy Secretary of Defense, criticized the Agency's role in Germany. (b)(3)(c) [redacted] the Deputy Director for Plans, responded that "there is no adequate answer or correction of the assumption that we rely very largely upon the ZIPPER effort for intelligence on Eastern Europe generally." (b)(3)(c) [redacted] stated, "this is a common fallacy which is always cropping up and it should be pointed out that we have our own independent operations in addition to the Zipper effort."⁶³ The Agency also found that supporting the German service to be an expensive proposition with little actual control over its personnel.⁶⁴ (S)

Cutting Both Ways

CIA's support of the Gehlen Organization proved a double-edged sword. On the one hand, US assistance to the nascent West German intelligence service strengthened ties between the two countries. The

United States and the Federal Republic of Germany remained close allies throughout the long years of the Cold War. On the other hand, CIA's relationship with the Gehlen Organization also had longlasting impact in terms of counterintelligence and Warsaw Pact propaganda efforts. (U)

The Gehlen Organization never escaped from its roots as successors to Nazi Germany's military and intelligence circles. Gehlen's intelligence service suffered devastating penetrations by the KGB, witnessed by the Hans Clemens and Heinz Felfe spy scandals of the early 1960s. These intelligence failures highlighted the CIA's concerns about the Gehlen Organization which it had expressed during the period under the US Army's control.⁶⁵

(b)(3)(n)

While the Agency's support to the Gehlen Organization remains a controversial topic, it took on this responsibility after lengthy debate and with the full knowledge of the risks. The CIA recognized that its ties to Gehlen meant it inherited many negative aspects that had also plagued the Army between 1945 and 1949. Gehlen's intelligence on the Soviet Union, however, outweighed these problems during the hottest years of the Cold War. The history

of postwar Germany needs to take into account the origins of the CIA's trusteeship of the Gehlen Organization. (U)

NOTES

1. For an "open" history of the American relationship with the German intelligence service after World War II, see Mary Ellen Reese, *General Reinhard Gehlen: The CIA Connection* (Fairfax: George Mason University Press, 1990). Other books, of varying degrees of reliability, include E.H. Cookridge (*nom de plume* for Edward Spiro), *Gehlen: Spy of the Century* (London: Hodder and Stoughton, 1971); Heinz Hohne and Hermann Zolling, *Network: The Truth about General Gehlen and His Spy Ring*, trans. by Richard Barry (London: Secker and Warburg, 1972); and lastly, Reinhard Gehlen, *The Service: The Memoirs of General Reinhard Gehlen*, trans. by David Irving (New York: World Publishing, 1972). A draft manuscript by James H. Critchfield, entitled *Germany: From Enemy to Ally 1946-1956*, promises to add significantly to the literature on this topic. (U)

2. For a radical view regarding the CIA's link with the West German intelligence service, see Carl Oglesby, "Reinhard Gehlen: The Secret Treaty of Fort Hunt," *Covert Action Information Bulletin* 35 (fall 1990), pp. 8-14. (U)

3. [Redacted]

See also David Kahn, *Hitler's Spies: German Military Intelligence in World War II* (London: Hodder and Stoughton, 1978). (S)

4. [Redacted]
(b)(1)
(b)(3)(c)
(b)(3)(n)

5. [Redacted]
(b)(1)
(b)(3)(c)
(b)(3)(n)

6. [Redacted]
(b)(1)
(b)(3)(c)
(b)(3)(n)

7. Col. W.W. Quinn to Col. Donald H. Galloway, "Operation Rusny," 5 December 1946, [Redacted]
(b)(3)(c)

8. Crosby Lewis to [Redacted] 25 October 1945 [Redacted]
(b)(3)(c)

9. Preliminary Interrogation Report, 16 August 1945 [Redacted] in Baun, [Redacted]
(b)(3)(c)

10. SAINT, AMZON to SAINT, "Russian Experts of German Intelligence Service," 8 January 1946 [Redacted] Baun, [Redacted]
(b)(3)(c)

11. (b)(1) [Redacted]
SSU's objections to takeover in 1945

are outlined in Lewis to Colonel Galloway, "KEYSTONE Operation," 22 September 1946

(b)(3)(c)

(b)(1)
(b)(3)(c)
(b)(3)(n)

21. Lewis to Sibert, "Operation KEYSTONE," 6 September 1946.

(b)(3)(c) A declassified copy of this same memorandum also appears in Record Group 226, Records of the Office of Strategic Services, Entry 178, Box 4, Folder 39, National Archives and Records Administration. (S)

12. SAINT, AMZON to SAINT, "Russian Experts of German Intelligence (b)(3)(c)," 8 January 1946

(b)(3)(c)

(b)(1)
(b)(3)(c)
(b)(3)(n)

22. Kevin Soutour, "To Stem the Red Tide: The German Report Series and Its Effect on American Defense Doctrine, 1948-1954," *Journal of Military History* 57 (October 1993), pp. 653-688. (U)

13. (b)(1)

14. (b)(1)

18. (b)(1)

Examples of SSU and CIG reporting about RUSTY's security problems are numerous and can be seen in (b)(3)(c) Chief, IB, "Agent Net Operating in the Bamberg Vicinity," 17 September 1946; (b)(3)(c) "American Intelligence Network," 18 March 1947, enclosing "American Intelligence Network," 25 January 1947;

(b)(1)
(b)(3)(c)
(b)(3)(n)

23. Lewis to Galloway, "KEYSTONE Operation," 22 September 1946,

(b)(3)(c)

15. Lt. Col. John R. Deane, Jr., Operations Officer, USFET MISC, to G-2, USFET, "Plan for the Inclusion of the BOLERO Group in Operation RUSTY," 2 July 1946

(b)(3)(c) The operation is variously described as gaining its designation from either a nickname given to Lieutenant Colonel Deane's young son or that given to Colonel Russell Philp, commanding officer at "Basket," the secure facility at Blue House. See Reese, *General Reinhard Gehlen*, p. 207, and chief of station, Karlsruhe to Chief, FBM, "Bi-Weekly Letter," 4 December 1948,

(b)(1)
(b)(3)(c)
(b)(3)(n)

19. Lewis to Galloway, "KEYSTONE Operation," 22 September 1946,

(b)(3)(c)

(b)(3)(c) Deputy A, "Operation RUSTY," 16 October 1946,

(b)(1)
(b)(3)(c)
(b)(3)(n) In November 1946,

General Vandenberg asked that the Army send Gehlen and Baun to the United States for conferences with CIG.

(b)(1)
(b)(3)(c)
(b)(3)(n)

20. The Americans referred to the German intelligence service through a variety of project names, including BOLERO, KEYSTONE, and RUSTY. The use of the term "RUSTY" supplanted KEYSTONE in 1946 until CIA's assumption in 1949. After that point, the operational terms changed once again. (C)

(b)(1)
(b)(3)(c)
(b)(3)(n)

(b)(3)(c)

26. Galloway to DCI, "Operation RUSTY," 17 October 1946

(b)(3)(c)

This document appears as an annex to the Bossard Report. (S)

27. The New York meeting on 19 December 1946, organized by General Vandenberg, brought together a number of the top American intelligence figures to discuss RUSTY. Held at the apartment of Allen Dulles, the meeting included Dulles, William H. Jackson (both special advisors to CIG), Brig. Gen. Edwin K. Wright (DDCI), Brigadier General Sibert, Colonel Galloway, Col. Laurin L. Williams of Army G-2, Lieutenant Colonel Deane from RUSTY, Richard Helms, and Samuel Bossard. The group agreed that CIG should hold an investigation of RUSTY "on the ground" because "certain parts had possible long-range values."

(b)(3)(c)

See also Richard Helms, Memorandum for the Record, "Operation Rusty," 19 December 1946.

(b)(3)(c)

28. See chief of station, Karlsruhe to Chief, Munich operations base, "RUSTY," 2 November 1948.

enclosing undated, unsigned Bossard Report with charts.

(b)(1)

(b)(3)(c)

(b)(3)(n)

(b)(1)
(b)(3)(c)
(b)(3)(n)

29. *Ibid.*

30. *Ibid.*

31. *Ibid.*

32. Galloway, Memorandum to DCI, "Operation RUSTY," 3 June 1947

(b)(3)(c)

33. DCI to Secretaries of State, War, Navy, and Personal Representative of the Present, "Operation 'RUSTY.'"

(b)(3)(c)

34. Brig. Gen. Edwin K. Wright, Memorandum for the Record, 20 June 1947.

(b)(3)(c)

35.

(b)(1)
(b)(3)(c)
(b)(3)(n)

The situation between Baun and Gehlen created internal division within the German intelligence service within days after the general's return to Germany in 1946. Gehlen, however, retained Baun and sent him to Iran to conduct strategic planning in the Middle East. He died in Munich in December 1951 at the age of 54. (S)

36. CIG's recommendations to General Chamberlin for changes in RUSTY are found in a 27 June 1947 untitled, unclassified note written by Bossard.

(b)(3)(c)

The implementation of some of the changes are announced in Headquarters, First Military District, General Orders Number 54, "Organization of 7821st Composite Group," 1 December 1947.

(b)(3)(c)

37. Reese, *General Reinhard Gehlen*, pp. 93-97. Relations between Lieutenant Colonel Liebel and General Gehlen deteriorated quickly after Liebel's arrival; in part due to the American officer's insistence on obtaining identities of the German agents. Lieutenant Colonel Liebel also criticized Gehlen (referred by his operational name Dr. Schneider) for poor security practices. Captain Waldman supported Gehlen's stand during this period, which created tension within the American chain of command.

(b)(3)(c)
(b)(3)(n)
(b)(1)

(b)(1)
(b)(3)(c)
(b)(3)(n)
[Redacted]

46. DCI, Memorandum to Chamberlin,
31 August 1948,
[Redacted]
(b)(3)(c)

RUSTY," 17 December 1948,
(b)(3)(c)
[Redacted] (hereafter
cited as "The Critchfield Report.") (S)

38. (b)(3)(c) to Helms, "Opera-
tion RUSTY," 18 March 1948,
(b)(3)(c)
[Redacted]

53. *Ibid.*, p. 10 of the "Basic Report" in
"The Critchfield Report." (S)

54. *Ibid.*

39. Chief of Station, Karlsruhe to Chief,
FBM, "RUSTY," 19 August 1948,
(b)(3)(c)
[Redacted]

47. Headquarters told its officers in Ger-
many to refrain from forwarding
information about RUSTY to Army
officials there because the Army
apparently regarded the news as "snip-
ping."
(b)(3)(c)
(b)(3)(n)
(b)(1)

55. Richard Helms, Memorandum for
the Files, 1 February 1949,
(b)(3)(c) Colonel Cal-
loway made his recommendations
concerning RUSTY in Galloway to
DCI, "Recommendations in Re
Operation RUSTY," 21 December
1948, (b)(3)(c) The DCI con-
curred and submitted CIA's proposed
takeover in Hillkoetter to Maj.
Gen. William E. Hall, "Operation
RUSTY," 22 December 1948,
[Redacted]

40. *Ibid.*

41. *Ibid.*

42. Chief, Munich operations base, to
acting chief of station, Karlsruhe,
"RUSTY," 7 July 1948,
(b)(3)(c)
[Redacted]

48. (b)(1)
(b)(3)(c)
(b)(3)(n)

(b)(3)(c)
[Redacted]

56. For a variety of correspondence dur-
ing this delicate transition period, see
S. Leroy Irwin, Director of Intelle-
gence to DCI, "Operation 'Rusty,'" 19
January 1949, (b)(3)(c) Cabl-
SO to Karlsruhe, 9 February 1949, (b)(1)
OUT 75997; William G. Tharp, (b)(3)(n)
Executive Officer to Chief of Opera-
tions and Chief, FBM, [Redacted]
1 April 1949;

(b)(3)(c)
[Redacted]

57. Chief, FBM to chief of station,
Karlsruhe, "Operational, 10 February
1949, (b)(3)(c) enclosing Alan
R. McMichael, Acting ADSO to
Maj. Gen. S. Leroy Irwin, Director
of Intelligence, "Operation Rusty,"
9 February 1949,

(b)(3)(c)
[Redacted]

43. Richard Helms to ADSO, "RUSTY,"
19 March 1948,
(b)(3)(c) [Redacted]
For a copy of one such
Soviet article, see chief of station,
Heidelberg to Chief, FBM, "Russian
Newspaper Attack on American Intel-
ligence Activities," 6 February 1948,
(b)(3)(c)
[Redacted]

49. Chief of station, Karlsruhe to Chief,
(b)(3)(c)
[Redacted]

50. Cable, SO to Karlsruhe, 27 October
1948, (b)(3)(c) [Redacted]
Richard Helms also
provided some guidance for this
investigation in Chief, FBM to chief
of station, Karlsruhe, "RUSTY," 2
November 1948, (b)(3)(c)
[Redacted]

44. (b)(3)(c)
[Redacted]

45. (b)(3)(c)
[Redacted]

51. Cable, Karlsruhe to SO, 17 Decem-
ber 1948, (b)(3)(c)
[Redacted]

52. Chief of station, Karlsruhe to Chief,
OSO, "Report of Investigation—
[Redacted]

[redacted] For further information on the hostile environment at Pullach, see chief of station, Karlsruhe to Chief, FBM, "Letter to General Hall." 10 February 1949, [redacted] and chief of station, Karlsruhe to Chief, FBM, "ODEUM: Current Situation." 18 April 1949

58. Shortly after CIA took over RUSTY from the Army, the Office of the US High Commission for Germany (HICOM) assumed control from the Office of the Military Government for Germany United States (OMGUS) and the Occupation Statute went into effect. In September 1949, the Federal Government of Germany formed following the ratification of the Basic Law, the new republic's constitution in May. In the spring of 1952, Germany and the Western Allies replaced the Occupation Statute with Contractual Agreements. Three years later, West Germany became a sovereign nation and joined the North Atlantic Treaty Organization (NATO). Several months later, West Germany reformed its military forces and the Gehlen Organization became Germany's official intelligence service in February 1956. (U)

59. Chief of station, Karlsruhe to Chief, FBM, "Basic Agreement with ODEUM." 13 June 1949

(b)(3)(c)

(b)(1)
(b)(3)(c)
(b)(3)(n)

60. *Ibid.*

61. CIA dropped the use of the term RUSTY in 1949, and used a new operational code, ODEUM, through 1950 when it changed to ZIPPER. Following the establishment of the BND in 1956, the Agency referred to Gehlen's group as [redacted] and UPSWING. Between 1957 and 1968, the Agency referred to the German service as [redacted] CIA's Pullach base stopped using the Army's cover as the 7821st Composite Group and became known as

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(b)(3)(c)
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(b)(1)
(b)(3)(c)
(b)(3)(n)

(b)(1)
(b)(3)(c)
(b)(3)(n)

64. CIA initially provided Gehlen with [redacted] per month in 1949 to run his operations. By 1955, CIA had an

(b)(1)
(b)(3)(c)
(b)(3)(n)

(b)(1)
(b)(3)(c)
(b)(3)(n)

annual expense for over [redacted] to support the German intelligence service. Between 1950 and 1968, CIA spent [redacted] on Gehlen's organization and US liaison operations. CIA received some funding support from the Army while RUSTY, in the early days, increased its revenue through black market activities. The Agency never had full access to the identities of Gehlen agents.

(b)(1)
(b)(3)(c)
(b)(3)(n)

(b)(1)
(b)(3)(c)
(b)(3)(n)

66. Targeting of West Germany by the East German intelligence service for its Nazi links is found in Markus Wolf with Anne McElvoy, *Man Without a Face: The Autobiography of Communism's Greatest Spymaster* (New York: Times Books 1997). (U)