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MGL-A-3321

*file - Lake & ...*

12 September 1950

Chief, Foreign Division M

Chief of Station, Karlsruhe

Operational

USAGE/Situation Report

*ed/lee  
pls send file*

REF : MGL-A-3208 and 3064, MGL-A-3323

1. I have had several meetings with USAGE since his memorable interview with [redacted] on 23 August when he was told that the internal Austrian reporting which has constituted his main effort since last April is of little interest to us at this time. He was also told that we would request an evaluation of this internal Austrian reporting from local Austrian agencies to determine what interest may exist and whether this interest might not lead to some financial support which might enable him to continue some, or even all, of his present effort. Failing this, he understands that the funds assigned him must follow the shift in emphasis we want in his operations, that if Austrian agencies are not sufficiently interested in his production to underwrite them, he must be prepared to curtail his Austrian activities sharply and apply the larger part of his funds to the Rumanian and Hungarian possibilities which he has. He was also told by [redacted] that the long political and historical studies he has been preparing as a background for these Rumanian and Hungarian operations must be put into their proper perspective. He is to concentrate on presenting us with actual operational possibilities and plans and can then fill us in on the over-all material after he has something concrete actually in operation. This decision to abandon or cut down on internal Austrian reporting came as a surprise to USAGE, who had thought we were satisfied with his targets and his results. This was in part due to my preoccupation with the [redacted] operation and our withholding evaluations of USAGE's work which have been coming in these past few months until we had an over-all picture of the reactions to his production. It is quite obvious that USAGE will not give up his Austrian circle or any large part of it without a tussle. He speaks of his Austrian coverage and connections as the aircraft carrier from which he can operate into the Balkans, and insists that he cannot strip this complex without hamstringing himself. Parts of his Austrian show are no doubt indispensable to work into the Balkans from that country, but the greater part of it, if other Austrian agencies are not interested enough to support it, must go.

2. We are now determined to get USAGE's Rumanian and Hungarian shows on the road. He, too, is enthusiastic and is confident that the already existing nets in these two countries can be activated quickly and will within a few months give us a volume of returns which will enable us to judge their potentials accurately. We are now taking steps to paper USAGE so that he can make a trip to Rome to re-establish personal contact with PAPANACE and start the ball rolling.

EXEMPTIONS Section 3(b)

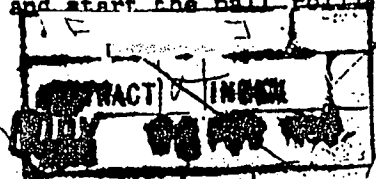
(2)(A) Privacy

(2)(B) Methods/Sources

(2)(G) Foreign Relations

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SECRET

- 2 -

It has been more than a year since he has seen PAPANACE, but he has been in touch with him via the mail and through MARGARIT, who is his liaison man to PAPANACE. USAGE is certain that the PAPANACE net is still there, that it has not been offered to any other agency, and that PAPANACE remains loyal to him and will put his entire assets at USAGE's disposal. USAGE's suggestion for papers to allow him to travel would have delayed the activation of the operation. He wanted a US passport, either a phony one or one actually reflecting the US citizenship which has long been his dream. I countered this with the suggestion that we get him an AGO card as a Department of the Army civilian to replace his AGO card representing him as an Army Captain (this was issued him by Captain Richardson about two years ago, was called in when we took over ZIPPER, and has been returned to him only for limited periods when a particular need arose). This we should be able to get quickly, and it will, with proper military orders, allow him to travel to Italy.

3. The problem of papering MARGARIT is far more difficult. USAGE says that MARGARIT must go to Greece to activate the PAPANACE lines running through that country. I do not understand why this is necessary if PAPANACE has his organization under control as alleged by USAGE, but if the trip to Greece is necessary, we must get MARGARIT a foreign passport from one of the countries whose passports are available for a reasonable sum. MARGARIT speaks only Rumanian which complicates matters. A short term papering for MARGARIT would do for his trip to Rome with USAGE, but we must also find a long term solution to this problem. USAGE thinks that \$1000 to \$1500 per month for a period of a few months will suffice to prove the value of this operation. He is still hoping for the long run to put through his long range financing plan for PAPANACE which involved a cheese factory in Sardinia costing about \$6000 originally and very likely to show sufficient profits to support most of the show later.

4. USAGE has almost finished charts and descriptive material on the PAPANACE net in Rumania, which includes penetrations of the labor unions, the communist party, youth organizations, the government and the army. These penetrations were started shortly after the end of the last war (see MGL-A-1036, 560, and para. 7 of MGL-A-535. Note: MGL-A-535 was the notional project 116 from USAGE, but the background material in para. 7 is factual). USAGE emphasizes the need for high security since any hint that this group is active in any way could result in wholesale deportations, imprisonments, or extermination. USAGE is disturbed by the continuing British interest in PAPANACE. He is now convinced that they want to assassinate him. This seems pretty farfetched to me, but he insists it is a distinct possibility. He bases this belief on the fact that PAPANACE is one of the most eager proponents of Balkan unity, a plan which collides with the century old divide and rule tactics of Britain in Europe. USAGE believes that the British want to get PAPANACE out of the way and install in his place a figurehead who could put the PAPANACE net at their disposal, but who would not insist on the Balkan federation plan which PAPANACE favors. I find it hard to believe that the British are worrying about a plan to unite the Balkans in the dim future when they are faced with the imminent possibility of a Europe forcibly united under the Soviets, and consider it

SECRET

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SECRET

- 3 -

probable that the British interest in PAPANACE is, for the present at least, purely an intelligence matter. USAGE thinks it necessary for security reasons that we convince Organization A and ZIPPER that although we have examined the PAPANACE angle (they were told we were interested), we have found it of little interest and are doing nothing with it.

5. Recently a Bishop LEU, a Rumanian in exile, has approached MARGARIT in Gaunden with a request that he be put in touch with PAPANACE. LEU has a British passport, and USAGE is convinced that he is a British agent. LEU requested an interview with PAPANACE, and PAPANACE has agreed if MARGARIT thinks it wise. USAGE's idea is that LEU should see PAPANACE and that PAPANACE should convince him that he is a political dreamer who is not, and has no ability to do any actual intelligence work. LEU is allegedly most interested in finding someone who can give him the possibility of working through Macedo-Rumanians in Greece and the Balkans. Early this year LEU gave Walter POPAN and AUNER, of Agency A, \$1400 with which POPAN was to bring LEU's daughter out of Rumania. The agent to whom this task was entrusted by POPAN returned almost immediately from the Hungarian border with a story that he had been caught, forced to hand over the funds, and then escaped. This story was made even less likely by the fact that during this exact period he bought a quantity of forestry equipment. AUNER and POPAN returned \$700 to LEU and told him that when they sold the forestry equipment which they had impounded, he would get the rest back. He is still waiting. USAGE suggested that we advance the \$700 to LEU so that he can make the trip to Rome to see PAPANACE and be convinced that PAPANACE is harmless and inactive. I turned this down and told USAGE that if the British are trying to put LEU in touch with PAPANACE, they will certainly see to it that he is not hindered for lack of money. LEU was interrogated by CIC in Gaunden within the past few weeks. It appears that they wanted to arrest him, but were forestalled by his British passport. We will request a copy of this interrogation to determine their interest in LEU and what he said about MARGARIT. LEU has appointed MARGARIT official representative of the Rumanian Orthodox Church in the American Zone of Austria which USAGE considers good cover. USAGE suspects that LEU voiced suspicions to CIC that MARGARIT might have communist leanings. This is a bit hard to reconcile with his appointment of MARGARIT as a representative of his Church in Austria, and the CIC report should clear this up for us. USAGE has had some doubts as to whether LEU was really working for the British and thought it possible that he might really be a Soviet agent. The fact that LEU wants to bring his daughter out of Rumania and has not been able to do so has convinced USAGE that LEU is almost certainly not a Soviet agent. A Mr. ATKINSON of IRO, Salzburg, gives LEU money and medicines to help him with his church work.

6. The political situation in Greece bears heavily on PAPANACE's whole net since the bulk of his lines run through that country. When I asked USAGE to get down to cases and give me suggestions for the prompt activation of the PAPANACE complex, he started off by practically asking that we interfere in the Greek picture at the highest level. USAGE and PAPANACE believe that the continued persecution of the Macedo-Rumanian minority in Greece will result in an uprising and that they will be labeled as communist by the Greek government, when and if this uprising occurs. USAGE maintains that the Greek government

SECRET

SECRET

- 4 -

would welcome trouble from this quarter since it would assure the flow of funds from America to fight what would be presented to the outside world as a communist or communist inspired revolt. I told USAGE that a move like this as a preliminary to starting an intelligence operation was fantastic and that we must go ahead with the operation taking care of individual problems arising from the expected situation in Greece as they confronted us.

7. USAGE's plan for intelligence operation against Hungary breaks down into two large groups.

a. The first, a long range operation, involves a sleeping net already in existence which has between two and three hundred members (see MGL-A-3323, para. 1). We are to receive the true names of all these people, who represent a tightly knit and well trained group. A large amount of signal equipment will be necessary to equip the people involved in this plan.

b. The second, an operation which should begin to produce intelligence almost immediately consists of (see MGL-A-3323, para. 2) who work with (MGL-A-3323, para. 3). This group has an established line of communication (MGL-A-3323, para. 4). These people have been told that our main interest is in political, economic and military information and have agreed to concentrate on these categories. USAGE thinks that a total of \$300 per month invested in this net and the long range net in para. a, above, would within a short time convince us that they are workable and productive opportunities.

Neither of the above groups has at present or ever have had any contact with other intelligence agencies.

8. When we have the complete plans from USAGE for the Rumanian and Hungarian operations, it seems to me that instead of breaking the possibilities down into projects or feeding money into them to be used in an over-all activation, we would do far better to select possibilities of particular interest, run them as exploratory or test cases, and later finance them as projects if they prove of value. In this way, we can test USAGE's Balkan possibilities with limited funds and do it quickly.

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