

USAGE Status as of 15 June 1951

1. USAGE's status as an agent in direct contact with POB rather than as an agent of ZIPPER dates from early 1950: the decision to drop him, for refusing to submit operational data on his intelligence contacts, was made by ZIPPER at a staff meeting held on 25 January 1950 and direct contact was established by Pullach soon thereafter. It was believed by POB at this time that he was an experienced intelligence operator who possessed an unusually wide circle of friends, acquaintances and contacts and whose grasp of the political intelligence field throughout the Balkans, and to a lesser extent in western Europe, could profitably be exploited. He was on the point of completing a Rumanian study which had been under way for several weeks and it was expected that this study would provide the basis for the establishment of operations into the Balkans.
2. In March 1950 USAGE submitted a comprehensive "Analysis of the Austrian IS Picture," complete with ten diagrams showing his contacts and all of their ramifications. At about the same time he submitted a list of GVA members which proved to be the most complete listing obtained to date, and reported information on GVA cover firms and other matters which also was of considerable value to our understanding of ZIPPER. His detailed and comprehensive knowledge of all matters dealt with seemed to justify the decision to retain his services.
3. For the next six months (i.e., until approximately August 1950), USAGE was permitted, largely because of Pullach personnel problems, to operate free of any strict supervision and perhaps without adequate briefing on targets and priorities. During this period he submitted a tremendous volume of reports, largely on the internal Austrian situation and largely overt in nature. It became apparent that his greatest efforts were going into the production of reports which were of practically no interest to us, although they were valued by USFA for political and analytical content. At the same time there was a great deal of general confusion on the subject of USAGE and uncertainty as to the reliability of his reportage, because of his failure to supply information permitting identification of the sources of his reports and because USAGE and his operations were never organized on a project basis. Considerable guesswork regarding sources was indulged in and a great deal of dissatisfaction with the caliber of his production was expressed. USAGE himself, however, was permitted to continue his work more or less without guidance and unaware of his true status with US intelligence.
4. On 24 August 1950, following a station reassessment of his operational assets and record of production, USAGE was informed that his Austrian activities were to be sharply curtailed and that major emphasis was to be placed by him on the development and activation of his Hungarian and Rumanian operational possibilities. He was instructed that it would be necessary for him to produce detailed operational information which would provide adequate basis for the evaluation of his reports, and that the political and sociological studies in which he was interested (i.e., on Rumania) but which he had not yet produced, were to be de-emphasized until such time as he had established his ability

NAZI WAR CRIMES DISCLOSURE ACT

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(2)(A) Privacy
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to mount operations into the Balkans. He was given instructions, in sum, both as to targets and operational procedures and it was made clear to him that his continued employment by POB would depend upon his ability to reorient his work toward the collection of information on satellite areas.

5. During the next six months' period, between August 1950 and March 1951, USAGE again identified his intelligence connections, now formalized as nets bearing alphabetical designations. These nets included several Austrian as well as individual Hungarian and Rumanian nets, and their identification considerably simplified the mass of information on USAGE connections and aided the evaluation of the USAGE intelligence potential. In the case of Austria, the data which he supplied largely represented operational information long overdue (i.e., the identification of persons or groups from whom he was already obtaining information or reports); the data which he submitted on Rumania and Hungary, on the other hand, was in the form of ~~operational data~~ ^{operational data} and specific proposals (plus background studies). In both instances there was provided the basis for reaching decisions regarding USAGE's future work.

6. As of 15 June 1951, the Austrian reporting has been greatly decreased and specific instructions have been given to USAGE concerning his individual Austrian agents and their future use; final decision on USAGE's proposed Rumanian operations was reached following study of the voluminous material submitted by him and he presumably has been informed of this decision; ~~and~~ similar consideration of proposed Hungarian operations is now in process. Attached are separate statements giving the 15 June 1951 status of the three categories of USAGE operations, and a summary of the so-called *Thompson* incident.

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Tax Evasion Incident

1. Prior to 14 April 1951 USAGE requested authorization to sign the name Captain Albert EISNER to a letter certifying that the USAGE cover firm, AUSTRIA VERLAGS gmbh, Vienna, had been advanced certain schilling amounts, which later had been paid back. The purpose of the maneuver was to avoid Austrian taxation of funds used by the firm, and permission was categorically denied. On 14 April USAGE signed the certificate, however, using the full name Captain Albert A. EISNER, Headquarters Field Survey Detachment, APO 541, Salzburg, attesting that the firm had received deposits of 350,000 schillings in connection with a publications project and had refunded all of the money except 75,083 schillings, withheld for expenses incurred; Subsequently, during the course of a routine verification of the EISNER signature, the Austrian Ministry of Finance discovered that the signature was not valid and became interested in pressing charges against the AUSTRIA VERLAGS for falsification of income tax returns. Representations were made to USFA, which handed the case over to CID for disposition. The incident was first reported by Pullach on 12 June and from this date until early September pressure for satisfaction was brought to bear on CID, particularly by the Austrian tax agent handling the case, ^{Dr.}MUELLNER, who stood to collect a percentage of any fine levied on members of the AUSTRIA VERLAGS.
2. The nature of the information uncovered in the preliminary check made by CID upon receipt of the case, as well as the general tenor of the representations made by the Austrian government, made it apparent to CID that the matter probably was one of intelligence. The case was referred to our Vienna station through routine liaison channels, the Pullach interest in the case was established, and CID was requested to continue to forestall Austrian inquiries in the matter until decisions could be reached on AIS action.
3. The case then hung fire for two months, during which time various possible lines of action were considered. Confusing elements were injected into the case in the form of questionable items of information on the cover firm and its activities and personnel, but the chief decision which had to be reached was ~~the determination of~~ whether any efforts should be made to intervene on behalf of USAGE, and if so what intervention was most desirable, or whether to permit him to extricate himself, as he claimed he could do by having the matter pigeon-holed in the Finance Ministry. Initial reactions were to assist USAGE rather than to permit him to make uncontrollable and unknown representations to the Austrian government. Further consideration of the risks involved in possible intervention, (by attempting to backstop the falsified letter or by high level CID or other official approach to the Austrian government), or by bribery of the tax agent, however, led to the decision to obtain a written statement from USAGE giving the full details of the case, for possible use as a control instrument, and to otherwise let the Austrian investigation run its course. It was calculated that during the course of such investigation and prosecution bankruptcy proceedings against the director of the AUSTRIA VERLAGS, Anton JETSCHNY, probably would result, and that the EISNER letter

The decision to go to the aid of USAGE was largely due to his position at that time in the ELECTION case.

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probably would be identified as forgery, since no American support for its authenticity would be offered. Reliance was placed on USAGE's belief that JETSCHNY would not involve him in any possible proceedings against JETSCHNY, and his further belief that he would be able to quash within the Justice Ministry any criminal charges preferred against himself or JETSCHNY as a result of the forged letter.

4. Toward the end of August it seemed likely that the case would be prosecuted, since CID informed that it would be forced to answer the Austrian charges by 31 August or face a formal complaint lodged by the Austrian Finance Ministry with USFA. However, at about the same time it was learned through JETSCHNY, who had been able to offer the tax agent's wife employment unknown to her husband and through her to keep informed of the progress of the case, that as of 4 September the case was stalled because no information had been received from CID and that the entire case would be dropped if no additional information was received from CID within another four weeks. There the case apparently ended. No information has been received on the subject since September 1950.
5. Prior to the "conclusion" of the case, the following elements of the situation became known:
 - a. The official Austrian investigation revealed to the Austrian authorities that the AUSTRIA VERLAGS gmbh obviously was a cover firm for other activities, since two of the four listed partners were charwomen who received small sums from Anton JETSCHNY for the use of their names, and since no references to the firm could be located other than a listing in the telephone book.
 - b. The Austrian officials claimed to have obtained documents pertaining to an account labeled "Konto Buchreitner Engelbert," maintained with JETSCHNY, according to the latter's statements to the Austrians, by UN representatives, including American, British, French and Soviet officers. JETSCHNY identified one Captain TEPLIKOV, who was listed as having withdrawn more than 130,000 schillings, as a Soviet officer with whom he had had dealings but about whom he was "afraid to reveal more."
 - c. The check made by CID revealed that Anton JETSCHNY was a well known smuggler and blackmarketeer in Vienna who had done considerable work for USIA. Information presumably obtained by Pullach from USAGE further indicated JETSCHNY's indebtedness, to the extent of 300,000 schillings, to the Socialist VORWAERTS VERLAG and his intention at one time of approaching the VORWAERTS VERLAG for political intervention on his behalf to prevent bankruptcy proceedings being instituted.
6. During the two months in which the case was under review, the following inquiries or directives were sent to the field:

✓ PPS

- a. Obtain full written confession from USAGE of the entire letter incident, to be held as a possible control instrument.
(Usage gone to POB)
- b. Follow up USAGE-JETSCHNY connection and obtain explanation of JETSCHNY's relations with the Soviet officer. *(POB has)*
- c. Pouch list of ZIPPER activities in Austria using the [] cover.

Headquarters files contain a statement that the control instrument was being pouched by Pullach, but the document in question has not been located. No answer has ever been received to the request for a follow-through on JETSCHNY and his dealings with USAGE and others. A statement giving the history of GVA use of the [] cover was received, with a statement that personnel to whom this type of documentation had been issued would be identified at a later date (see Cover File). *(GVA did not supply)*

7. Aspects of the case which were never clarified or which are still pending insofar as our files are concerned include the following:
 - a. It was assumed by CID that the Austrian government probably did not reveal the full extent of the information which it had uncovered in its investigation of the AUSTRIA VERLAGS. Full consideration was given to the ramifications of this possibility when the risks involved in intervention on behalf of USAGE were being discussed. At present, however, lack of information makes it difficult to judge the degree of interest which may have been taken by the government in the information which it did obtain, or of the interest which may have been aroused in keeping track of the firm and its activities and personnel on a continuing basis, although the case against the cover firm apparently was dropped.
 - b. The organization and functions of the AUSTRIA VERLAGS remain largely unknown, as do USAGE's connections with firm personnel, JETSCHNY, his background and activities, etc. Pullach indicated on 21 August 1950 that the firm probably would be eliminated from the cover picture as a result of the difficulties with the Austrian tax authorities, but there has been no further information on this subject.
 - c. No indication has been made by Pullach (unless the control document not now at hand clarifies this matter) as to whether any degree of control was in fact established over USAGE, or of the strength of any statements which may have been made to him indicating total disapproval of his action. It seems likely that no such effect was ever achieved in view of the fact that the Austrian government never took action against him.

Usage still thinks he was right and cites the enormous difference between tax evasion cases in USA and Europe. [] [] *205*

Austria

1. The following information was provided by USAGE on those persons or groups from whom he obtained reports or information on Austria:

a. AA net

AA 1
AA 2
AA 3
AA 4
AA 5
AA 6

b. CC net - USAGE headquarters staff, or direct USAGE contact.

CC 1 - USAGE
CC 2 - Anton BOEHM
CC 3 - Inge von der TANN.
CC 4 - Walter HAUSHERR.
CC 11 - Hermann PFAUNDLER-HADERMUR
CC 12 - Josef WIRTH
CC 13 - Wolfgang PFAUNDLER

c. EE net - Catholic Church connections.

EE 1 - Father Hugo MONTJOYE
EE 2 - Father Marcel von CUTSEM
EE 3 - Father Ludwig FRODL
EE 4 - Otto SCHULTEISTER
EE 5 - Otto MAUER

d. HH net

HH 1 - Anton FELLNER

Sub-sources: Oswald SEEWALD, Rudolf KHECK, Lothar GREIL,
Stefan SCHACHERMAYER, Otto BRUNNER

HH 2 - Karl KRAMMER
HH 3 - Philipp METZLER

Sub-source: AUER, fmu.

HH 4 - Hans AMBROSIC
HH 5 - Fritz van TONGEL
HH 6 - Herbert KALHOFER
HH 7 - Gunther BREKCSCHSS
HH 8 - Walter SCHNEEFUSS
HH 9 - Walter HAFNER
HH 10 - Anton KRONBERGER
HH 11 - Otto BRUNNER

APY

e. MM net

MM 1	MM 6	MM 11
MM 2	MM 7	MM 12
MM 3	MM 8	MM 13
MM 4	MM 9	MM 14
MM 5	MM 10	MM 15

f. NN net

NN 1
 NN 2
 NN 3
 NN 4
 NN 5

g. PP net - Austrian Police and CI net, covering Land Salzburg and having connections in Vienna and Upper Austria.

PP 1 - Oskar MODELHART
 PP 2 - Karl HAGER
 PP 3 - Friedrich MOLNAR
 PP 4 - Franz CERMAK
 PP 5 - Johann ANGERER
 PP 6 - Georg EEICHNER
 PP 7 - Wilhelm LEHNER
 PP 8 - Heinrich ZACH
 PP 9 - Karl MEIEL
 PP 10 - Herbert MODELHART
 PP 11 - Johann EMIG
 PP 12 - Konrad SCHROECK
 PP 13 - never identified
 PP 14 - never identified

h. SS net - Socialist Party net, covering all of Austria.

SS 1 - Oskar MODELHART (identical with PP 1)
 SS 2 - LINSBAUER, fnu
 SS 3 - Otto PROBST
 SS 4 - GEIGER, fnu
 SS 5 - Ferdinand LINHART
 SS 6 - Josef WEISSKIND
 SS 7 - Ernst HALLINGER
 SS 8 - Rupert ZECHTL

i. TT net - Vorarlberg Security Directorate unit.

TT 1 - Wolfram BITSCHNAU
 TT 2 - Wilhelm DIETRICH
 TT 3 - Hans Jurg KIRSCH
 TT 4 - VEIHER, fnu
 TT 5 - Leopold VOLLER
 TT 6 - Karl von WINKLER

j. VV net

VV 1	VV 3	VV 5
VV 2	VV 4	VV 6

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2. In March 1951, following the identification of the above nets and separate station study of the information submitted, Pullach, Vienna and Salzburg case officers jointly considered the question of USAGE's position in the Austrian intelligence picture, and reached certain decisions which further delimited his Austrian activities. These decisions had the following effects on the nets which he claimed:
- a. AA net - Net to be retained only if operational names and details were forthcoming and the net's reporting became more comprehensive; (ultimatum to this effect delivered to USAGE prior to 7 April 1951).
 - b. CC net - Headquarters staff to be cut down.
 - c. EE net - Entire net to be dropped following an interrogation of EE 1 (Father Hugo MOEJOYE) on the subject of French intelligence.
 - d. HH net - HH 1 (Anton FELLNER) to be retained pending determination of his ability to mount an operation to obtain Czech or Austrian OB; entire net, except HH 3 (Philipp MENTZER), to be dropped if no results are apparent within a brief period. HH 3 to be retained.
 - e. MM net - No decisions reported.
 - f. NN net - No decisions reported.
 - g. PP net - Net to be eliminated except for one reliable agent in Salzburg, Lins and Vienna. PP 1 (Oskar MODELHART) to be retained, and urged to develop agent personnel in the British and French zones of Austria.
 - h. SS net - SS 1 (identical with PP 1, Oskar MODELHART) to be retained; remainder of net to be dropped.
 - i. TT net - Net to be dropped.
 - j. VV net - Net to be retained. Control and development of VV 4, if and when he obtains a post in Budapest, to be given particular attention.
3. Thus, as of 1 June 1951, only one net (VV) definitely is being retained; the future of two nets (AA and HH) is in the process of being determined; a total of five agents are being retained from three other nets (EE, PP and SS); the USAGE headquarters staff (designated CC) is being cut down; and all other agents and nets have been eliminated or are on the process of being eliminated (EE, MM, NN, SS and TT).
4. However, although fairly clear cut decisions regarding USAGE agents have been made, there remain noticeable gaps in the information which has been received on the various nets. Such holes include the following:
- a. AA net - Names, targets and other operational information has never been received. It is probable that a certain amount of

information is held in the field which has never been transmitted to Washington, inasmuch as one pouch contained the statement that [] believed that the net leader (AA 1, never identified) had numerous contact possibilities which possibly could be exploited.

- b. CC net - No information has been received on the directions, if any, given to USAGE on the extent and manner of reduction of staff personnel, persons to be dropped, etc., or on any compliance by him with instructions. With regard to the net designations, it will be noted that Hermann PFAUNDLER-HADERMUR, Josef WIRTH and Wolfgang PFAUNDLER have been identified with the designations CC 11, CC 12 and CC 13, respectively, although their positions strictly speaking as staff personnel is uncertain; ✓CC 13 is known to be a relative of USAGE by marriage and to be an unpaid source. No names have ever been given for designations CC 5 through CC 10, moreover, while CC 2 (Anton BOHEM), and CC 3 (Inge von der TANN) have been identified by name and as staff personnel, and CC 4 has been identified by name. It is probable that the CC group includes both members of USAGE's headquarters staff and persons with whom USAGE maintains direct contact.
- c. HE net - Results of the debriefing of HE 1 (Father MONTJOYE) are unknown as yet. The USAGE file contains no clear statement regarding the separation of HE 2 (Father Marcel van CUTSEM) from the HE net; USAGE originally identified HE personnel as influential Catholic officials with whom he maintains contact. It would appear, accordingly, that the subject of van CUTSEM's alleged ability to defect Soviet military personnel is a facet of the situation which developed only recently, and that this subject is being dealt with apart from any HE net consideration and in conjunction with MOB case officers, who ultimately will handle any development of defection possibilities. Thus, the decision to drop the entire HE net following interrogation of HE 1 apparently has been amended to include the retention of HE 2 (Father van CUTSEM), pending the receipt of further information on his operational possibilities.
- d. HE net - ^{*}No information has been received on the outcome of the action following instructions given to HH 1 (Anton FILLNER) on the development of new operations. Information on the HE net is confused by the fact that HH 1's listed sub-sources include the name of Otto BRUNNER, who also has an HH designation (HH 11), although other sub-sources do not; this does not quite hinge with the Pullach statement that all persons having higher letter/number designations were merely sub-sources of the net leader. Targets for the various net sub-sources can usually be deduced from the type of reports received; no study has been made of the reports produced by the net but it would appear from statements made in MOIA's that HH 1's sub-sources produced information on KERNMEYER circle activities, while HH 3 (Philipp METZLER) concentrated on Communist activities. It is noted, however, that Count Karl GERAN, who has now

been dropped and who never was given any net designation, produced at least one report, also received through USAGE, on KERNMEYER activities.

- e. MM net - No ~~targets~~^{were} or biographical information ~~was~~^{was} ever reported.
- f. NN net - No targets or biographical information ~~was~~^{was} ever reported.
- g. PP net - No designation has been made as yet of the reliable agents who are to be retained from this net, and no information on the progress of PP 1 (Oskar MODELHART) in developing new agent personnel has been received.
- h. VV net - The USAGE file contains no record of the names or targets of the VV net, and in particular no record of the identity of VV 4. (See section on Hungarian operations.)

Reports

5. It will be noted that the USAGE files contain considerable correspondence on the subject of reports evaluations. As indicated, strong statement of dissatisfaction with Austrian reporting was conveyed to USAGE in August 1950. In December of the same year, Pullach case officers met with Vienna and Salzburg staff personnel to consider USAGE operations, among other subjects. At ~~the same~~^{this} time the complete and early termination of all USAGE internal Austrian reporting was strongly recommended by the Austrian staff, and the recommendation was accepted in principle by Pullach, subject to FDM concurrence. In reporting to headquarters on the matter, however, Pullach observed that evaluations of USAGE Austrian reports in general had been sufficiently favorable to make difficult the job of directing USAGE to desist, citing worthlessness of reports. There then ensued a series of exchanges between headquarters and the field on the question of USAGE reports evaluations with headquarters taking the stand that evaluations had been neither favorable enough nor numerous enough to have been encouraging to USAGE. Thus, while everyone (Washington, Pullach, Vienna, Salzburg) seems to have been in agreement on the necessity for clamping down on USAGE's Austrian reporting, the subject of the valuation to be placed ~~on~~^{on} reports produced was reopened and a certain lack of agreement on just what the caliber of the reporting had been was evident. Confusion undoubtedly arose from the fact that ZIPPER (at the time USAGE was employed by ZIPPER) and USFA (which was the recipient of USAGE reports) were both primarily interested in coverage ^{of} the internal Austrian scene; their favorable reactions probably ^{had} influenced USAGE's continued and expanded coverage of Austrian affairs. Headquarters became convinced that the Austrian reports should be eliminated because they were outside of agency ~~target~~^{target} interest and were not the product of clandestine operations, and was of the belief that this opinion was shared by the Austrian field stations. Pullach repeatedly cited favorable customer reactions (ORE, UEFA, etc.) to reports, however, and disagreed as to the valuation made by Austrian field stations. Final resolution was arrived at by March 1951, particularly with the joint decisions on disposition of the Austrian nets.

RF5

6. Note: CG 13 (Wolfgang PFAUNDLER), brother-in-law of USAGE) has been the subject of discussion, as a possible USAGE penetration of OPC. [] has handled all discussions with OPC on the matter, as well as correspondence with the field, the general substance of which is not known at the ZIPPER desk.

* 7. MOLA-6660, dated 1 June 1951, outlined USAGE's new proposal for OB coverage of the Sovzone of Austria, Germany and the CSR. In essence, the plan stated that Alois WINSINGER, run by HH 1 (Anton FELLNER), would leave for the CSR at the end of June 1951 for a six weeks' trip through the Soviet Zone of Germany and the CSR. Almost no other information was furnished. (USAGE/Developmental Project SINGER.)

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HUNGARY

1. On 23 August 1950 USAGE was directed to reorient his work in such way as to put major emphasis on the activation of his satellite operations. Several discussions were held with him by [] between this date and 12 September when it was reported that USAGE's Hungarian operational possibilities consisted of two large groups, as follows:
 - a. A long range operation consisting of a sleeping net of 200-300 former radio technicians and operators of the Hungarian Army.
 - b. A group of priests living in the West and in Hungary, who were working with Hungarian youth groups in Graz, Vienna and Innsbruck and who allegedly already had an established commo link with Hungary, via a railroad conductor on the Vienna-Budapest line.

USAGE then requested a three months' trial period for the development of these two operations, and on 22 October was allotted \$1500 to finance such work during this period.

2. Earliest reports received from USAGE had indicated that he believed the Jesuits constituted the sole consolidated Hungarian block through whom intelligence work might be accomplished, and that he maintained contact with a number of the leading Hungarian Jesuits in the West. Further, he intimated that the Jesuits were indebted to him for (unspecified) aid rendered them since the Mindzenty trial, and in fact that Father Elemer REISZ, leading Hungarian Jesuit in the West, had agreed not to undertake any intelligence work for any group without prior discussion with USAGE. Relations with Father REISZ presumably were further strengthened in the fall of 1950 when the latter entrusted a valuable Jesuit stamp collection to USAGE for shipment to Rome (delivery arranged for by Pullach as a personal favor to USAGE).
3. Thus, when USAGE outlined his operational possibilities in the fall of 1950 and began to supply the names of members of projected intelligence nets, the following Jesuits figured prominently:

XX-2	Father Elemer REISZ
XX-3	Father Andor VIRAGH
XX-4	Father Istvan BORBELY
XX-5	Father Zoltan VARGA
XX-6	Father Lajos MEZGAR
(XX-7)	Hungarian priest school in Vienna)

4. Both of the operations described above (paragraph 1 a and b) apparently were the result of action taken by XX-2 and XX-5: Fathers REISZ and VARGA sent Antal BALINT (designated XX-55) on a trip to Hungary early in August 1950 to survey the general situation, and while there he organized the two groups. Both groups, which were entirely separate, were to be placed at the disposal of USAGE. The latter was in direct contact with XX-5 (Father VARGA), who maintained contact with XX-55.
5. Further information on persons listed by USAGE as participants in his planned Hungarian operations is as follows:

2 - 3 RPP

c. Group 1 (radio operators):

XX-200 Janos ETTER
XX-210 Ferenc KATASI
XX-220 Istvan NAGY
XX-230 Istvan NEMETH
XX-240 Geza SZELISTYEI
XX-250 Jozsef PAAL

Each of the above net leaders, activated by XX-55 during his trip to Hungary in August 1950, was to direct 6-8 radio operators (no names provided). In November 1950 XX-55 again went on a trip to Hungary, for the purpose of activating new units which would work on the same target as that of the above nets, penetration of the Hungarian Army, police and radio system.

d. Group 2 (priest-youth groups):

XX-501 Ferenc KERESZTES
XX-502 Lajos HORVATH
XX-503 Jenő BELEKI
XX-504 Lajos MATE
XX-505 Ilona KERESZTES
XX-506 Geza HERCZEGH
XX-507 Lajos PETI
XX-508 Mrs. Ferenc MAGYAR
XX-509 Geza GAZDAG

USAGE reported that the above group had been "partially activated," and that it already had a comso channel.

- c. Members of the Hungarian Catholic group living in the West and cooperating in USAGE's work included five agents in Vienna, fourteen agents in Innsbruck, and unspecified persons in Graz and Salzburg.

Vienna:

XX-51 Kornel POLGAR
XX-60 Gyula DEUTSCH
XX-61 Ernő HEHERSTREIT
XX-62 Magda HEHERSTREIT
XX-52 Istvan HARANGOZO

Innsbruck:

XX-16: Martha OROSZ
XX-17 Sandor MARGHESCU
XX-18 Istvan BACSALMASSI
XX-53 Janos SAKOVITS
XX-64 Endre BERKI
XX-65 Tibor HANAK
XX-66 Ferenc HORVATH
XX-67 Denes JAN
XX-68 Otto TABORSZKY
XX-69 Ferenc ZSOK
XX-70 Kornelia HERSZEG
XX-71 no name received
XX-72 Erzsébet DANCSECS
XX-73 Eva MURANYI

= > PPS

d. Persons are or less unidentified insofar as position with the group is concerned, but associated with Jesuit activities/ and indicated as net members:

- XX-18 Gyorgy SZENDY
- XX-19 Jenő BODAY
- XX-21 Josef ZAGON
- XX-56 Laszlo STEPHANECZ

6. As of November 1950, the above names (plus brief descriptive statements) and bare operational framework constituted all of the operational data received from USAGE; he was to develop his work from this basis. On 20 November, however, word was received by Father Zoltan VARGA that XX-55 (Antal BALINT) had been killed as he tried to recross the border from Hungary. It was claimed that XX-55 had carried no written information and had had no knowledge of the general operational picture, but it was concluded that all persons contacted by him during the course of his trip of August 1950 (i.e., all persons named above in paragraph 5 a and b) were either lost or endangered. Attempts were to be made to verify the news of the death of XX-55, but all members of his "immediate circle" were to be "put on ice" until 1 May 1951.

7. During the next few months USAGE attempted to activate other lines of communication with Hungary and in Feb. 1951 claimed to have put two such lines into operation. Both were to be directed by Odeon KRIVACHY (XX-1), described as a former Hungarian diplomat in Vienna with whom USAGE had maintained close contact.* It would appear that following the death of XX-55, USAGE asked XX-5 (Father VARGA) to nominate an "inconspicuous" person as a starting point in the activation of the new communications system, and that VARGA had recommended XX-61 (Ernő HEBERSTREIT) and XX-611 (Otto SATTLER). It was then arranged for VARGA to introduce KRIVACHY to HEBERSTREIT, who became the KRIVACHY contact to net members, and for SATTLER to provide contact with a second net.

a. 1st line: XX-1 (Odeon KRIVACHY) through XX-611 (Otto SATTLER) to:

- XX-612 Karl GAUZER: Austrian RR employee contacted by XX-611 in Vienna on end of Vienna-Sopron-Burgenland run.
- XX-613 Ferenc NEMETH, contacted by XX-612 in Sopron.
- XX-621 Laszlo VASS, in contact with XX-613 through letterdrop (location unknown); resident of Szombathely.

The net's intelligence emphasis was to be placed on OB collection, and XX-621 was to contact "XX-sympathizers" in the Szombathely-Papa-Nagykanizsa area for possible recruitment.

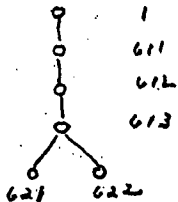
b. 2nd line: XX-1 (Odeon KRIVACHY) through XX-61 (Ernő HEBERSTREIT) to:

- XX-616 Karl RITTMANN: RR conductor working on Vienna-Hegyshalom line, contacted by XX-61 in Vienna.
- XX-615 Ferenc RADI: RR employee working on Hegyshalom-Budapest line, contacted by XX-616 in Hegyshalom.
- XX-614 Sandor KISS, contacted by XX-615 in Budapest for material collected by XX-614 from XX-618, XX-619, XX-620, XX-622.
- XX-618 Imre HALASZY
- XX-619 Razon FOKI
- XX-620 Julia TOTH
- XX-622 Miraly ARANYOS

* Krivachy is a well known Hungarian emigre of great intelligence, reputation and reliability. He reportedly maintains ties with the ZAKO group.

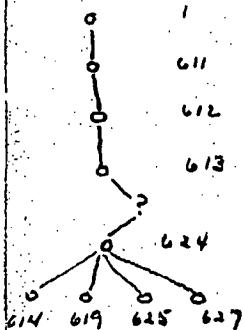
- c. 3rd line: A third line planned by USAGE was to be a mail line which would utilize relatives resident in Switzerland of members of the "XX group." He was directed by Pallasch not to take any action on this plan, however, pending receipt of higher approval.

8. As of February 1951, USAGE claimed that the above lines were in existence and that intelligence production could begin as soon as net members were provided with secret inks, to be used by both lines 1 and 2. Progress reports of 7 and 21 March, however, indicated that USAGE had felt it advisable to completely reorganize both lines. He stated that he felt that it was safer to use a girl rather than a man as chief agent in Hungary at this time, and that it was desirable to leave XX-614 (Sandor KISS) in a key position, because of his previous contact with and knowledge of XX-61 (Mimo HEBERSTREIT). After reorganization, the two lines were as follows:



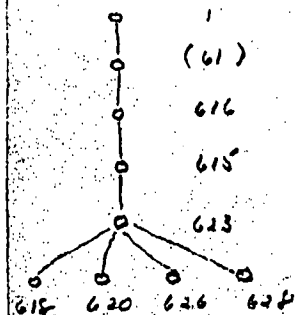
a. 1st line: XX-1 (KRIVACHY) through XX-611 (SATTLER) to:

- XX-612 Karl GAUZER, Austrian RR employee contacted by XX-611 in Vienna on end of Vienna-Sopron-Burgenland run.
- XX-613 Ferenc NEMETH; letter drop contact between XX-612 and XX-613 under preparation.
- XX-621 Laszlo VASS; letter drop contact between XX-613 and XX-621 under preparation.
- XX-622 Mihaly ARANYOS; letter drop contact between XX-613 and XX-622 under preparation.



b. 2nd line: XX-1 (KRIVACHY) through XX-611 (SATTLER) to:

- XX-612 Karl GAUZER, contacted by XX-611 in Vienna as above.
- XX-613 Ferenc NEMETH; letter drop contact with XX-612 under preparation; in contact with XX-624 through unnamed RR employee.
- XX-624 Anna HENEZI, Budapest, who will be in direct contact with XX-614, XX-619, XX-625, XX-627
- XX-614 Sandor KISS
- XX-619 Razso FOXI
- XX-625 Andras JACICZA
- XX-627 Dezzo HERKES



c. 3rd line: XX-1 (KRIVACHY) through XX-61 (HEBERSTREIT) * to:

- XX-616 Karl RITTMANN, RR conductor working on the Vienna-Hegyshalom line, contacted by XX-61 in Vienna.
- XX-615 Ferenc RADI, RR employee working on Hegyshalom-Budapest line, contacted by XX-616 in Hegyshalom. Letter drop contact with XX-616 under preparation; in direct contact with XX-623.
- XX-623 Ilona JAKAB, RR employee, Tata; in direct contact with XX-618, XX-620, XX-626, XX-628.
- XX-618 Imre HALASZY
- XX-620 Julia TOTH
- XX-626 Razso FOPVATH
- XX-628 Jenő VINCZE

* MGLA-5519 reported that a line was in operation between XX-611 (SATTLER) and XX-615 (RADI) through XX-616 (RITTMANN). According to an earlier report (MGLA-5508), however, this line was reported

as running through XX-61. It is believed that HGLA-6519 was incorrect and that this error may have given rise to the confusion in Vienna as to whether or not HERBERSTREIT had been dropped by USAGE.

- d. Emergency line: WV-4 (unidentified agent who allegedly will assume a position as chief of the Visa and Passport Office of the Austrian Legation in Budapest) was ~~been~~ asked by USAGE to establish a private courier line to his wife, who lives in Vienna, for emergency use. Intelligence passing through this line would be received by USAGE on the Austrian end, and in Hungary would be picked up by WV-4 from separate letter drops to be set up by XX-625 and XX-624.
 - e. Alternate line: In the event of a break in contact between XX-623 and XX-615, or between XX-615 and XX-616, XX-623 will inform XX-611 by ordinary mail (postcard using the word measles). The line from XX-611 to XX-623 could then be reestablished through XX-613 and the "central letter drop."
9. Upon receipt of the names of all of the persons associated with the above nets, Pullach provided the secret inks requested by USAGE for the operations. USAGE allegedly was "ready to roll" as of 21 March 1951, and was informed by Pullach at that time that at such time as full operational details were forthcoming, the Hungarian project would be put into project form and the financing of the operation could be discussed. On 25 April headquarters sent Pullach a general statement of current target interest in Hungary, and indicated that a more specific brief could be provided when and if USAGE actually developed operations toward from Hungary. As of 15 June, no further developments have been reported.

Reports

10. As of 21 February 1951, a total of 20 reports had been received from USAGE's Hungarian project, all of which allegedly passed through the hands of XX-61 (HERBERSTREIT). The latter was held in extremely high regard by all American case officers who had had dealings with him, but the reports produced by the operation were uniformly evaluated as of small value - vague, outdated, rumors, padded newspaper articles, etc. Pullach's position with regard to the low caliber of reporting was that POB case officers were not specialists on Hungarian affairs and thus were in no position to determine the value of the reports or provide guidance, and that in submitting them USAGE had specifically stated that they probably would be of small interest and were being passed on merely for what they were worth; Pullach believed that at least one of the reports, on Soviet vehicle numbers, was of sufficient interest to warrant further probing of the operation. As of 15 June 1951, no further reports have been produced by the operation, Pullach has been provided with a general statement on Hungarian targets, and efforts are being made to determine whether or not the reports mentioned above actually did pass through the hands of XX-61.

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Hungary - Hungarian Gendarmerie

1. In December 1950 USAGE submitted to Pullach a voluminous background study of the now defunct Hungarian Gendarmerie, together with statements of the intelligence work USAGE thought the group would be capable of at the present time and of the sabotage and underground resistance work which it might be capable of in time of war. He stated that the last Chief of the Gendarmerie and his Chief of Staff were now in the West, and urged consideration of the complex for possible intelligence cooperation. The study was transmitted to headquarters, with the notation that after USAGE had provided the first contact with members of the Gendarmerie group, he might be severed from the operation to devote his full energies to his own Hungarian operations.
2. No action was taken by headquarters until 31 January 1951, when Pullach cabled that USAGE was pressing for an answer on possible use of the Gendarmerie. He stated that contact would have to be established soon or the group would seek other sponsors, and Pullach offered the suggestion that Selwyn be authorized to contact the former Chief, Lajos DE BOBOLYI, in order to determine what the group had to offer. Headquarters replied that the information on the Gendarmerie supplied to date was inadequate as the basis for reaching a decision on use of the group, but approved the proposition to debrief DE DOBOLYI. Salzburg was to be provided with a copy of the original report, and possibly to handle the case if the debriefing indicated promise.
3. On 23 and 28 February [] using [] identity, talked with DE DOBOLYI in Salzburg and obtained from him his autobiography, further statement on the history and functions of the Gendarmerie, and his plans for future activities of the group. In essence, DE DOBOLYI's plan called for the expenditure of \$2500 per month for "organization, research and recruitment": he proposed to locate leaders (number unspecified but presumably more than 20) of small groups which would be developed in the West; to send two couriers from each group into Hungary to explore the situation and recruit chief agents in Hungary; and to instruct the men so recruited to spot and recruit for their own nets. Radio communication would then be established between Hungary and agents in the West. The information was then put into project form by [] at which time it was more than clear that as yet we had nothing more than a grandiose scheme: no names ^{had been} submitted, although it was promised that both names and biographical material and photos on all persons under consideration for the work would be forthcoming.
4. No information was received from the ^{date on which} ~~time~~ the debriefing results were pouched to headquarters (8 March 1951) until 3 April, when Pullach requested permission to hand the case over to the Salzburg station for study. Permission was granted, and on 13 April Pullach and Salzburg case officers met to discuss the question of the Gendarmerie's intelligence potentialities and the possible handling of DE DOBOLYI by Salzburg. Salzburg officers stated unequivocally at this time that they "did not believe further exploration of (DE DOBOLYI's) plan was indicated" and recommended that the matter be dropped. Salzburg was requested by Pullach case officers to submit the reasons for ~~that~~ recommendation to headquarters, and no information has been received on the case since the receipt of this memo in April 1951. It is assumed from the tenor of Pullach dispatches, rather than from any specific statement, that the case is considered as

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as closed, by ~~Pullach~~.

For the complete statement made by Salzburg on DE DOBOLYI and the Hungarian Gendarmerie as described by DE DOBOLYI, see MASA-445. It seems indicated, in brief, that DE DOBOLYI has misrepresented both his own position and motives and the composition and aims of the group he claims to head: He is a politician rather than a Gendarme, and makes large claims which he is unable to substantiate. It was concluded by Salzburg that there might be a definite potential among the refugee Hungarian Gendarmes but that any exploitation should be carried out on a strictly individual basis.

Hungarian Exile Press Evaluation Project

1. In April 1950 Pullach requested a decision as to whether USAGE should be permitted to evaluate and report on the Hungarian exile press. It was stated that the number of organs being published now was limited and that contact was maintained by certain ones with valuable sources of information in Hungary.
2. The proposal was immediately turned down by headquarters, on the grounds that any publications which might be likely to contain information of operational value could be obtained and evaluated through our own channels.
3. In August 1950 USAGE was about to be told that any work such as he proposed would just be a duplication of work done at a higher level, but that if he desired to do this work for his own operations and at his own expense he was free to do so. At about this time he submitted an "Index System for Current Events" for which he desired additional funds, and there was some feeling that the Hungarian exile press evaluation schema had perhaps been but an opening wedge for getting funds for the larger index work.
4. Headquarters made the suggestion in February 1951 that, in the absence of operational information ^{on the Hungarian Exile Press} and with reports evaluations at hand indicating that USAGE's Hungarian net was turning in data which was overt, of newspaper type, etc., possibly USAGE's XX group was the same group of persons he previously had been attempting to promote for press evaluation work. Pullach indicated agreement that this was a possibility, which developments might prove or disprove, but nothing has transpired to clarify the matter one way or the other.

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Rumania

1. In the fall of 1949 USAGE submitted three projects (114, 115 and 116) to ZIPPER which had as their aim the exploitation of his connections with Constantin PAPANACE, Iron Guard leader who allegedly maintained contact with his loyal adherents in Rumania. These projects were analysed in Washington and approval was given for their activation, despite a lack of any great enthusiasm for giving support to the PAPANACE group and the realization that the three projects might prove to be as much under the control of the PAPANACE political organization as under the control of ZIPPER. At this point, however, ZIPPER arrived at the decision to drop USAGE and when direct supervision was assumed by Pullach it was learned from him that the proposed operations were notional, although his relationship with PAPANACE was bona fide. USAGE then promised to provide the true facts regarding his possibilities for mounting operations into Rumania via PAPANACE channels, and presumably set about drawing up detailed and comprehensive reports on this subject.
2. The promised reports and charts on Rumania were awaited with decreasing optimism from January 1950 until February 1951, when they were finally produced. During this period USAGE made several allegations that other intelligence services, notably the British, were making attempts to approach USAGE for operational purposes, but consistently maintained that PAPANACE was personally loyal to himself and would not enter into any intelligence relations without prior clearance with USAGE.
3. Having been notified in August 1950 that he faced loss of American support unless he could get his satellite operations under way, in November 1950 USAGE requested authorization and documentation for a trip to be made to Rome by himself and Jon MARGARIT, Iron Guard leader in Austria, to confer with PAPANACE. Pullach provided the desired facilities, in the interests of getting the long delayed Rumanian operations into an active state, and then awaited results. As of February 1951, the full details of the trip still had not been obtained, although by this time USAGE had rendered voluminous reports consisting of a history of Rumania, the Macedo-Rumanians and the Iron Guard Movement, a listing of PAPANACE's chief followers in the West, and a limited amount of information on a courier line which might have access to interesting material. The operation which he proposed, in effect, amounted to purchase by us of the PAPANACE group or movement, was almost totally lacking in operational data essential to any assessment of the merits of the proposal, and called for the expenditure of a large amount of money over a further period of some months, for probing activity which would net us little more than an indication of whether or not a productive operation was feasible.
4. Upon receipt of the reports and the proposal, the entire question of the USAGE/PAPANACE operation was taken up with the Rumanian Desk, FDP. The latter requested the views of the [] station and received the information that [] had a highly sensitive source who was in productive contact with both PAPANACE and his secretary, who also figured in the USAGE plan, and that neither of the latter two could be taken on without the knowledge of the Italian IS. FDP accordingly was unwilling to support

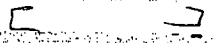
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the project, particularly in view of USAGE's demonstrated unwillingness to provide essential operational data. On 11 April 1951 Pullach was informed that the USAGE/PAPANAGE operation was disapproved.

- 5. Names of persons proposed for this operation, and the background studies and reports supplied by USAGE will be found in the Rumanian File.



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Summary

1. As of 15 June 1951 USAGE's operational status would appear to be as follows:
 - a. Austria: Since March we have been awaiting operational data and information on compliance by USAGE with instructions on reorganization of the Austrian nets. The sole item received recently is his Developmental Project SINGER, which cannot be considered to be more than a brief statement; operational details and biographical material ^{is} totally lacking.
 - b. Rumania: USAGE's sole Rumanian prospect ended with the disapproval of the PAPANAGE operation.
 - c. Hungary: At least three communications lines running into Hungary are claimed by USAGE, but all three appear to be dependent upon use of letter drops which at last report were merely "under preparation." Operational details have not been supplied and proposals have never reached project basis. The Hungarian Gendarmerie case is considered to be closed.

2. It seems apparent that while Pullach relations with USAGE have been cordial, and while USAGE has professed to be completely cooperative, Pullach has not been much more successful than ZIPPER in terms of overall results, and that failure in both instances may be attributed to the same cause: failure or refusal by USAGE to supply operational data. At present we appear to be committed to a further period of waiting to see whether USAGE will produce any concrete information on his Hungarian project, on which his future with us depends. His past record of being able to come up with countless new proposals, thereby delaying any decision on his work, makes it desirable that a time limit be set at the end of which time he will either have a going operation into Hungary or be severed from Pullach. No reason is found for giving him one more chance: it has been approximately one year (24 August 1950) since he was given his last "one more chance" and there appears to be little hope that he will ever develop into a first class agent.

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