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Chapter Nine

America's Seeing-Eye Dog on a Long Leash (U)

In 1949, just as the Office of Special Operations began to use emigre groups (such as the ZPUHVR) and the Office of Policy Coordination entered into covert action, the CIA assumed responsibility for the nascent West German intelligence service.¹ More than any single project, this action linked the Central Intelligence Agency with veterans of Nazi Germany's intelligence services, some with notorious wartime reputations.² The Agency, however, reached this decision only 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.³ (U)

¹Portions of this chapter appear in condensed form in Ruffner, "A Controversial Liaison Relationship: American Intelligence and the Gehlen Organization, 1945-49," (now declassified), *Studies in Intelligence* 41 (1997), pp. 69-84. In addition, many of the documents discussed in this chapter are found in Ruffner, ed., *Forging an Intelligence Partnership: CIA and the Origins of the BND, 1945-49*, 2 vols. (Washington, DC: Central Intelligence Agency, 1999). (now declassified) (U)

²For a somewhat 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* (Fall 1990), pp. 8-14. (U)

³For 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

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Gehlen's Saga (U)

The story behind the CIA's involvement with the Gehlen Organization actually started during the final 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 *Gotterdammerung* as the Third Reich crumbled in the spring of 1945. 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 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 responsibility for preparing intelligence assessments on the Soviet Union. Gehlen's work in this position eventually incurred Hitler's wrath, and he rejected Gehlen's pessimistic reports about the strength and capabilities of the Soviet Army. Hitler summarily dismissed Gehlen, now *Generalmajor*, in April 1945. (U)

Irving (New York: World Publishing, 1972). A draft manuscript (June 1996) by James H. Critchfield, entitled *Germany: From Enemy to Ally 1946-1956*, promises to add significantly to the literature on this topic. (U)

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Gehlen did not leave Berlin emptyhanded. He knew that the FHO contained 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 from the capital 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 allies, 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 East and West and Germany's role in postwar Europe. (U)

On the Lookout (U)

Even before Germany's capitulation, Allied forces were on the lookout for German intelligence officers and enlisted men. Indeed, as the Americans looked for Gehlen, he tried to find an American unit in order to surrender. After a circuitous route, the US Army finally delivered Gehlen and his men to the Twelfth 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 and Vlasov Army members, 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

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contiguous with them.”⁴ Thanks to his interrogation of German officers who had fought on the Eastern Front, Boker quickly became the Twelfth Army Group’s resident expert on the Soviets. (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 Brig. Gen. Edwin L. Sibert, G-2 for the Twelfth Army Group and later head of intelligence for USFET, 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

⁴Boker’s account of his role during 1945-46 is found in John R. Boker, Jr., “Report of Initial Contacts with General Gehlen’s Organization,” 1 May 1952, in DO Records, [] Box 2, Folder 2, CIA ARC. (S)

⁵A general history of this early period is found in Chief, EE to EE/G, “History of the Gehlen Intelligence Organization,” 28 March 1960, (S), enclosing [] [] “History of the Gehlen Intelligence Organization,” September 1953, DO Records, [] [] Box 1, Folder 5, CIA ARC (hereafter cited as “Gehlen History”). []

[] , Clandestine Services Historical Series []

⁶Further details about *Stab Walli* are found in Baun’s interrogation in Counter Intelligence War Room London, Situation Report No. 154, “Leitstelle - I OST (Walli), 15 January 1946, (S), in Herman Baun, [] [] DO Records. (S)

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

Through Boker's efforts (he had accompanied Gehlen's group to the United States), and officers at the Eastern European Order of Battle Branch at the Pentagon, the situation for the Germans gradually improved. The BOLERO Group, as Gehlen's team became known, served under the direction of Army Capt. Eric Waldman until its return to Germany in June 1946. Gehlen's men prepared reports based on German records, and the general himself also had access to and commented on American intelligence reports. (S)

OSS and SSU Kept in the Dark (S)

The Office of Strategic Services played little role in the interrogations of Gehlen and his staff in Germany and in Washington. In the throes of dissolution during the fall of 1945, OSS declined the Army's invitation to employ Baun in Germany. The new Strategic Services Unit also expressed some reluctance about using the German FHO for American intelligence purposes.⁷ SSU, however, did try to determine the nature of the relationship between Gehlen and Army intelligence. On 25 October 1945, Crosby Lewis in Germany informed Winston N. Scott in London:

⁷Col. W.W. Quinn to Col. Galloway, "Operation Rusty," 5 December 1946, (S), in DO Records, [] [], Box 5, Folder 9, CIA ARC. (S)

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For your information only, Baun and a group of other members of Fremde Heere Ost, experts in the GIS 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 US 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 US—all this without any contact with the OSS here.⁸
(S)

In November 1945, Lewis responded to a request by Gen. Sibert that SSU take over Baun's 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 Baun's employment, 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, did not sit well with Lewis.⁹ (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

⁸Crosby Lewis to Winston M. Scott, 25 October 1945 (S), in Baun, DO
Records. See also Scott to Lewis, 30 October 1945, (S), in Baun DO Records.
(S)

⁹"Gehlen History," pp. 14-15 (S). SSU's objections to takeover in 1945 are outlined in Lewis to Col. Galloway, "KEYSTONE Operation," 22 September 1946, (S), in DO Records,
 Box 36, Folder 8, CIA ARC. A copy of this same memorandum with an attachment is also located in DO Records, , Box 3, Folder 1, CIA ARC. (S)

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provide further information about the Soviets while the general worked in the United States. Baun, in fact, had been arrested by the 80th CIC Detachment 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 Third Army Interrogation Center the following month. The announcement of his arrest and the distribution of Baun's Preliminary Investigation Report raised great concern at Army G-2 because the Soviets now demanded the extradition of both Baun and Gehlen.¹⁰ (C)

While the Army refused to accede to the Soviet demands, it 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 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 developed his plans to launch a full-scale intelligence organization. The Army's G-2 planned to use Baun to resurrect his *Abwehr* network against the Soviets, but SSU "advised them [the US Army] to interrogate Baun at length and have nothing to do with his schemes for further intelligence activity."¹¹ (S)

Meanwhile, SSU's Bill Holtzman in Munich had interrogated another officer of *Stab Walli*, *Oberst* Heinz Schmalschlager, about German intelligence activities against the Russians. SSU, in fact, considered Schmalschlager more valuable than Baun.¹²

¹⁰Preliminary Interrogation Report, 16 August 1945, (C), in Baun, [] DO Records. (S)

¹¹SAINT, AMZON to SAINT, "Russian Experts of German Intelligence Service," 8 January 1946 (S), in Baun, [] DO Records. (S)

¹²SAINT, AMZON to SAINT, "Russian Experts of German Intelligence Service," 8 January 1946, (S), and untitled note to "Reg Phelps," in Baun, [] , in DO Records. (S)

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Despite SSU's advice that the Army dismiss Baun and reduce its reliance on FHO-derived intelligence, the opposite took place. Baun continued to operate and even thrived under US Army auspices. In January 1946, he established a service to monitor Soviet radio transmissions in the Russian zone and, two months later, the Army authorized him to conduct both positive and counterintelligence activities within Germany.¹³ (S)

Operation RUSTY (U)

In the summer of 1946, the Army returned Gen. Gehlen and the remaining FHO members to Germany. At this point, Lt. Col. John R. Deane, Jr., the operations officer at the Military Intelligence Service Center published his plans to merge Gehlen's BOLERO group with Baun's already existent staff, known as KEYSTONE. Gehlen would coordinate the functions of both elements of the German organization while he had direct responsibility for the Intelligence Group, which provided evaluations to economic, military, and political reports obtained by agents of Baun's Information Group.¹⁴ The Army designated the entire organization Operation RUSTY, under the overall supervision of Col. Russell Philp, Lt. Col. John R. Deane, Jr., and Capt. Eric Waldman, who preceded Gehlen's return to Germany from Washington.¹⁵ (S)

¹³"Gehlen History," pp. 15-16. (S)

¹⁴For a roster of the Intelligence Group (also known as the Evaluation Group) and the Information Group, see "Gehlen History," pp. 21-22. Gustav Hilger, for example, is listed as a member of Baun's Information Group. (S)

¹⁵Lt. 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, (S), in DO Records, ☐ ☐ Box 2, Folder 2, CIA ARC. The operation is variously described as gaining its designation from either a nickname given to Deane's young son or that given to Col. 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, MGM-A-859, (S), in DO Records, ☐ ☐ Box 5, Folder 9, CIA ARC.

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The Army planned to provide Operation RUSTY with US intelligence reports for comments and insight. Gehlen's Evaluation 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 US."¹⁶ Deane's optimistic outlook indeed spurred the Army to submit more requests to Operation RUSTY, and Baun quickly expanded his collection efforts to meet the Army's insatiable appetite for information on the new threat in Europe. By October 1946, Gehlen and Baun claimed to have some 600 agents operating throughout the Soviet zone of Germany, providing the bulk of intelligence on the Russian Order of Battle.¹⁷ (S)

As the Army increased its demands on Operation RUSTY, the group was transformed from a select group of German General Staff officers to a larger group that suffered from poor cohesion and mixed allegiances. In addition to covering eastern Germany, Operation RUSTY took on new missions in Austria and other areas of Europe as well as broadened earlier wartime contacts with emigre groups in Germany and with members of the Vlasov Army.¹⁸ The few American officers assigned to the Blue House

☐ states emphatically that Operation RUSTY gained its name from Deane's son, ☐

¹⁶Deane to G-2, USFET, 2 July 1946; for a copy of one Evaluation Report, see Evaluation Report No. 2, Operation RUSTY, "Political and Military Training of German PWs in USSR for Commitment in Germany," 27 September 1946, (S), in DO Records, ☐ ☐ Box 1, Folder 5, CIA ARC. This Evaluation Report was prepared in response to a May 1946 US Army request that the Gehlen Organization report Soviet efforts to form a new German army. This same folder also contains numerous Intelligence Reports produced by Operation RUSTY in 1946. (S)

¹⁷Lt. Col. J.L. Collins, Chief, Information Section, to Chief, Intelligence Branch, "Operation Rusty," 24 September 1946, (S), in DO Records, ☐ ☐ Box 6, Folder 15, CIA ARC. (S)

¹⁸White Russian General Pictur Glazenap acted as the point of contact between the Germans and the Vlasov veterans. Glazenap exploited this position and American subsidies to build up his own emigre movement, the SAF, which later created problems for OPC's efforts to rally the divergent anticommunist groups into a central group. See Carmel Offie to Wisner, "General Pictur

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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. Throughout the Western Allied zones of Germany, men and women openly claimed to be working for American intelligence, leading to many security breaches and undermining RUSTY's overall effectiveness. To make matters worse, the US Army also assisted RUSTY's agents to avoid the established denazification procedures in Germany.¹⁹ (S)

As early as November 1946, [redacted] [redacted] in Munich complained to CIG headquarters in Heidelberg that the Gehlen Organization was busy at work in the Munich area seeking new agents.²⁰ [redacted] [redacted] told Henry Hecksher that "most of the recruited

Glazenap," 24 January 1949, (S), enclosing [redacted] [redacted] "Is the US Using Genl. Glazenap," 25 December 1948, in Hilger, [redacted] [redacted] DO Records. (S)

¹⁹For a description of many of these problems, see "Gehlen History," pp. 24-29, 34. Examples of SSU and CIG reporting about RUSTY's security problems are numerous and can be seen in Hans L. Marchand to Chief. IB. "Agent Net Operating in the Bamberg Vicinity," 17 September 1946; [redacted] [redacted] to [redacted] [redacted], "American Intelligence Network," 18 March 1947, enclosing "American Intelligence Network," 25 January 1947; and various intelligence reports about Operation KEYSTONE from CIG's various agents in Munich in 1947. All of these documents are located in DO Records, [redacted] [redacted], Box 5, Folder 8, CIA ARC. (S)

²⁰Among the Gehlen Organization's agents, Horst Paul Issel came to the new service with a notorious wartime reputation. Born in Berlin in 1912, Issel served in the RSHA headquarters in Berlin and later in occupied Denmark. SS *Obersturmfuehrer* Otto Alexander Friedrich Schwerdt formed a SS *Sonderkommando* unit in Denmark, known as the "Peter Unit," in December 1943. Issel joined the unit in the summer of 1944 and commanded it by the end of the year. The unit, a gang of SS men and Danish collaborators, committed the infamous "clearing murders" in Denmark during the last year of the war. According to Danish officials after the war, the Germans pinpointed specific Danes for execution to wipe out the Danish resistance and to terrorize the civilian population. All told, the Germans conducted some 267 acts of retaliatory murder or sabotage, including the death of Kaj Munk, a well-known Danish poet and minister. At Nuremberg, the International Military Tribunal found the "clearing murders" in Denmark to be a "Himmler-conceived and Hitler-ordered form of reprisal, in which innocent persons were assassinated by their captors as a method of rule by terror." Issel escaped from Denmark in the last days of the war and ended up in the Gehlen Organization. The British arrested him in Berlin in early 1949 and, despite an appeal from the Gehlen Organization for his release, the US Army refused to help Issel. The Army, in fact, denied that Issel was a member of the Gehlen Organization and by the time that it realized its error, the British had turned over Issel to the

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people have till now been acting as subsources for either us or CIC, but now their informant days are over because they have 'at last contacted top American intelligence which has a lot of money.'" The Army's Counter Intelligence Corps, it appeared, was helpless, "because they are afraid of interfering with work of the 'higher Headquarters.'²¹

(S)

Hecksher, in turn, reported to CIC's contact at Army headquarters about the state of affairs. "In line with our standing complaint that talent scouts working for 'Operation Rusty' in the Munich area are cornering the market by offering monetary incentives far out of proportion to the potential intelligence yield they can expect," Hecksher stated, "we are passing on to you the well-substantiated account." While Hecksher observed that "we are not directly affected by this practice inasmuch as we try to recruit our agents from circles less susceptible to the lure of exorbitant rewards. Hardest hit, so far," the CIC counterintelligence officer commented, "has been CIC, Munich. At the same time, we on

Danes. The Danish Government tried Issel and sentenced him to death for war crimes. The Military Government's Office of the Director of Intelligence in Berlin expressed its dissatisfaction with the Issel case in a note to the Army officials responsible for the Gehlen Organization. "It is strongly recommended that increased effort on your part be made to complete your central file of agents," wrote the Deputy Director. "The Issel case can be used as a warning to those who are reluctant to submit names to your central file, because it must be emphasized that no effort will be made to protect them if they cannot be identified as working for a US agency." Army headquarters furthermore declared that "it will also prevent statements as follows, allegedly said by one of your agents to the British who arrested Issel: 'if the SOB Americans won't protect us, we won't work for them.'" See Deputy Director, Intelligence Division to Commanding Officer, 7821 Composite Group, "List of Agents," 15 March 1949, 350.09 (GID/OPS/IS), (S), in Horst Paul Issel, [redacted] DO Records. See also Whitney R. Harris, *Tyranny on Trial: The Trial of the Major German War Criminals at the End of World War II at Nuremberg, Germany, 1945-1946* (Dallas: Southern Methodist University Press, 1954, rev. ed., 1999), pp. 216-219. (S)

²¹AB-51 [Hecksher] to [redacted] [redacted], "Operation RUSTY (KEYSTONE)," 2 December 1946, MGH-009-1202, (S), enclosing [redacted] [redacted] to AB-51 [Hecksher], "Recruitment of Agents in the Munich Area," 26 November 1946, MSC/Memo/080, (S), in DO Records, [redacted] [redacted] Box 50, Folder 4, CIA ARC. (S)

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principle regret to see an inflationary spiral set off in rewarding agents and informants.”²²

(S)

The situation had only grown worse by 1948 when Hecksher reported that RUSTY “took over some of the informants dropped by Munich Operations Base after it had been conclusively established that the intelligence they furnished was of no value whatsoever.”²³ The Army’s Counter Intelligence Corps and the Military Intelligence Service also picked up agents when they had been dropped by SSU or CIG. As early as December 1946, Headquarters told OSO’s Security Control in Germany that “we believe our best policy would be to steer clear of it and let such agents and informers who are being lured away by higher inducements, go their merry way. It seems a shame that anyone is willing to pay so much for very low grade and mostly unverifiable information.”²⁴ (S)

The Army Pitches RUSTY to CIG (U)

Operation RUSTY turned out to be an expensive project and, by mid-1946, Army G-2 found itself running out of funds. The Army 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 conferred with Gen. Sibert and Crosby Lewis, now SSU chief in Germany, about the Army’s proposal. Lewis repeated many of

²²Ibid. (S)

²³Hecksher to Helms, “Operation RUSTY,” 18 March 1948, (S), in DO Records, [redacted], Box 5, Folder 8, CIA ARC. (S)

²⁴SC, FBM to SC, AMZON, “Operation RUSTY,” 27 January 1947, X-9213, (S), in DO Records, [redacted], [redacted], Box 6, Folder 128, CIA ARC. A copy of this same memo is found in DO Records, [redacted], [redacted], Box 5, Folder 168, CIA ARC. (S)

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his objections that he had made earlier in the fall of 1945, and he suggested that SSU make a "thorough study" prior to any decision by Headquarters.²⁵ In early September 1946, Lewis specified in writing to Gen. Sibert the conditions under which SSU would be prepared to assume responsibility for Gehlen, emphasizing the need for US intelligence to have complete access to all German records and identities of leading personalities and agents for initial vetting.²⁶ In his review in the fall of 1946, Lewis summarized his thoughts:

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.²⁷ (S)

A Crown Jewel Proposal (U)

²⁵Lewis to Galloway, "KEYSTONE Operation," 22 September 1946, (S), in DO Records, [] [] Box 36, Folder 8, CIA ARC. See also undated, unclassified summary of Lewis's cables to Washington in 1946 in DO Records, [] [] Box 5, Folder 9, CIA ARC. (S)

²⁶Lewis to Sibert, "Operation KEYSTONE," 6 September 1946, (S), in DO Records, [] [] Box 2, Folder 2, CIA ARC. A declassified copy of this same memorandum also appears in RG 226, OSS Records, WASH-REG-INT-41, Entry 178, Box 4, Folder 39, NARA. (S)

²⁷Lewis to Galloway, "KEYSTONE Operation," 22 September 1946, (S), in DO Records, [] [] Box 36, Folder 8, CIA ARC. (S)

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In addition to the Army's efforts to get SSU to take over the Gehlen Organization, Crosby Lewis was buffeted by other proposals to employ former Nazis. In October 1946, he went to Switzerland to meet with Paul Blum and Henry Hyde, the former commander of the Seventh Army's SI detachment and Blum's predecessor as chief of mission in Switzerland.²⁸ The three Americans met Eddy Waetjen, a former German *Abwehr* officer and one of Dulles's Crown Jewels. Waetjen told the Americans about his discussions in Washington with Col. Quinn. According to Waetjen, he spoke with Quinn about three projects to gain further insights into happenings in the Soviet zone of Germany.²⁹ (S)

The first project involved US support to the Eugen Gerstenmaier's *Hilfswerk der Evangelische Kirche in Deutschland* (HEKD), the welfare agency of the Lutheran Church in Germany with ties to the east.³⁰ Secondly, Waetjen advocated the expansion of the interrogations of German prisoners of war returning from Russian camps. Thirdly, and

²⁸Lewis to Blum, 22 September 1946, L-002-922, (S), in WASH-REG-Int-112, DO Records, [] Box 2, Folder 20, CIA ARC. (S)

²⁹Lewis to Helms, 22 October 1946, MGH-003-1022, (S), in DO Records, [] Box 49, Folder 2, CIA ARC. (S)

³⁰Eugen Gerstenmaier was a leading member of the German Lutheran church who rose to become president of Bundestag. During the war, he was in touch with Allen Dulles in Switzerland and with German members of the plot to kill Hitler in 1944. Imprisoned by the Nazis, the Americans liberated Gerstenmaier and he became an OSS contact. Working with Harry Hermsdorff, a SI officer in Berlin, Gerstenmaier founded the HEKD in August 1945. The group raised donations to help German civilians, but it fell under suspicion of the West German customs office in 1949 for violating tax and customs regulations. As a result, Wolf von Gersdorff, the HEKD's business manager and a former *Abwehr* officer, fled to Chile. The West German court eventually settled the case out of court, but the CIA was also implicated. OPC, for example, subsidized the organization's paper, *Christ und Welt*. Gerstenmaier, in the meantime, left the HEKD and concentrated on his political career. He, however, retained his ties with the Agency and several officers, including Dulles, [] and, and []

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most importantly, Waetjen advocated that the Americans interrogate German General Staff officers who had served on the Eastern Front. In fact, Hyde, who had commanded the Seventh Army's SI detachment during the war and was later chief of station in Switzerland after Dulles had gone to Germany, had provided Col. Quinn in early September with a list of Germans who could be useful in this regard.³¹ The names, drawn from Waetjen's contacts, "were the most likely to give us a picture, both of the German operations against Russia and the agent personnel used by the GIS."³² (S)

Richard Helms, in turn, forwarded two lists of names of individuals furnished by Waetjen to Lewis a few days later. The chief of Foreign Branch M told the German Mission chief, "it is possible that you may be able to handle these interrogations in conjunction with the Keystone Project." Helms emphasized, "in any event, it is considered highest priority here that everything possible be done to get complete data on the experience of all Intelligence Services which have worked on Russia. Such information," Helms stated, "should not only provide us with good operational

³¹For information on Hyde's background, see Wolfgang Saxon, "Henry Hyde is Dead at 82; Wartime Spymaster for O.S.S.," *New York Times*, 8 April 1997. (U)

³²Hyde to FBM, "Contacting Former Members of the German GIS Who Were Working on the USSR," 6 September 1946, (S), enclosing Hyde to Quinn, "German Individuals Involved in Intelligence Work on USSR," 4 September 1946, (S), in DO Records, [redacted], Box 44, Folder 5, CIA ARC. See also Hyde to Helms, "Names of Germans Likely to be Informed on German Intelligence Operations into Russia Proper Furnished by Waetjen [sic]," 16 September 1946, (S), in DO Records, [redacted], Box 44, Folder 5, CIA ARC. The lists include such names as Gen. Ernst Koestring, the pre-war German army attache in Moscow, *Oberst* Arnim von Lahousen, the head of *Abwehr* Amt II until relieved in 1943, Maj. Paul Leverkuehn, the *Abwehr* representative in Istanbul, and Prof. Gerhard von Mende, Kedia's contact in the *Ostministerium*. Waetjen also recommended that American intelligence contact *Sturmbannfuhrer* Erich Georg-Karl Albin Hengelhaupt, who had directed German clandestine operations in the Caucasus. (S)

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information, but also may lead to the discovery of individuals in a good position to continue this type of work for us.”³³ (S)

After Lewis met with Blum, Hyde, and Waetjen in Bern, he summarized the results of the conference. Lewis rejected using German General Staff officers as sources of information on the Soviet Union. “On the whole,” Lewis wrote Helms, “I am of the opinion that in matters of intelligence it is preferable to talk with professionals and not to General Staff officers. When dealing with professionals,” Lewis remarked, “the ethics which may restrain the individual from discussing intelligence matters with an American, or even with a German cut-out, do not come into the picture. It is my view,” he added, “that the proper subjects for interrogation on German intelligence activities in the East are the group potentially involved in the KEYSTONE operation.”³⁴ (S)

Lewis became incensed when he realized that Washington planned to use Waetjen as its link to members of the former General Staff. Lewis denounced Dulles’s group of old agents as a series of problems that the German Mission had to contend with after Dulles had returned home:

It is my feeling that having finally, after a great deal of effort, rid ourselves of the Crown Jewel Group, as a group, it would be a great mistake to bring them back into the picture. The Crown Jewels always seemed to me like a very exclusive club, in which every member knew all about every other member and in which discussions were carried on with complete disregard for normal security measures On the whole, our experience with the Crown Jewels has shown that they are to a man interested in promoting certain special groups inside Germany and incidentally assisting the American intelligence effort, rather than working for American intelligence and incidentally assisting certain special groups. It is this approach by the Crown Jewels which makes it impossible for us

³³Helms to Lewis, “Attached Memorandum,” 6 September 1946, L-009/1-906, (S), in DO Records, [] Box 3, Folder 42, CIA ARC. (S)

³⁴Lewis to Helms, 22 October 1946, MGH-003-1022, (S), in DO Records, [] , Box 49, Folder 2, CIA ARC. (S)

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to control it. Moreover, at a time when we here in the field have been receiving the strictest sort of orders about the security of the organization, it was a bit of a shock to hear Waetjen discussing Washington as if he were [sic] a staff member.³⁵ (S)

Lewis's vehement objection raised eyebrows in Washington. Helms, forwarding his memorandum to Col. Quinn and Henry Hyde, noted that Waetjen's trip to Germany "is for short duration to attempt to turn up a useful contact and that the German Mission should support him even if he does talk too much."³⁶ Col. Quinn, in a note to Col. Galloway, added, "this was started (project Keystone) in the early summer (before RUSTY came into the picture), i.e., we had to get going on Russian techniques and develop background material on possible ways of penetrating. Crosby L.," the director commented to the ADSO, "has always had it in for the Crown Jewel group and is a little venomous on the subject."³⁷ (S)

In December, Helms hastened to reassure Lewis and Blum about plans to use Waetjen. Helms said that Headquarters sought Waetjen, who desperately wanted to become an American citizen, for an operation in Turkey and as a contact for the German staff officers. "There was no thought that Eddy would permanently handle these men," Helms hastened to add. "The idea was simply that he would make the initial contact and attempt to turn the men over to us for our use." CIG, however, postponed Waetjen's visit to Germany "because the Keystone Project is still hanging fire and we wanted to get its status clarified before we undertook other work along the same line."³⁸ (S)

³⁵Ibid. (S)

³⁶Comments on Routing and Record Sheet attached to Lewis to Helms, 22 October 1946, MGH-003-1022, (S), in DO Records, [redacted], Box 49, Folder 2, CIA ARC. (S)

³⁷"Q" to "Don," attached to Lewis to Helms, 22 October 1946, MGH-003-1022, (S), in DO Records, [redacted], Box 49, Folder 2, CIA ARC. (S)

³⁸Helms to Lewis and Blum, "Eddy Waetjen," 4 December 1946, MGH-003-1204, (S), in DO Records [redacted], Box 49, Folder 3, CIA ARC. (S)

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Reviewing the overall history of the Crown Jewels since the end of the war, Helms said that it needed "no elaboration here. We are certainly sympathetic to the problems which Germany has had on this score (didn't I personally have my headaches!), but we do not want to pass up any bets which might be worth exploitation." If Waetjen came to Germany, the chief of Foreign Branch M simply asked that "he should be handled courteously but there is no need to take him into the family or to give him any more information than is necessary for him to give the assistance which he claims he can." Waetjen, however, does not appear to have made the trip and this proposal faded away.³⁹ (S)

The Vandenberg Report (U)

At the end of Gen. Sibert's tour as USFET G-2 in Germany, the debate whether a civilian intelligence agency should be responsible for Operation RUSTY shifted from Germany to Washington. Maj. Gen. Withers A. Burress, Sibert's successor, appealed to Lt. Gen. Hoyt S. Vandenberg, formerly Army Chief of Staff for Intelligence and now Director of Central Intelligence, for CIG to assume control of RUSTY. His memorandum, supported by extensive documentation, noted that USFET considered "the organization one of its most prolific and dependable sources."⁴⁰ (C)

³⁹Ibid. (S)

⁴⁰Burress to Vandenberg, "Operation RUSTY - Use of the Eastern Branch of the Former German Intelligence Service," 1 October 1946, (C), in DCI Records [redacted], Box 13, Folder 13, and DCI Records, [redacted], Box 11, Folder 481, CIA ARC. A full copy of the Burress memorandum and supporting documents can be found in DO Records, [redacted] Box 2, Folder 2, CIA ARC. The "Vandenberg Report" is the best summary report about Operation RUSTY during the Army's early period of control. (C)

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Vandenberg directed that the Office of Special Operations take a fresh look at RUSTY. On 16 October 1946, OSO 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." Regarding Baun's Information Group, OSO determined that "there is no evidence whatsoever which indicates high-level penetration into any political or economic body in the Russian-occupied zone." The review also blasted Operation RUSTY for its yearly budget of €

≈-roughly()times that of OSO's German Mission. OSO 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 OSO'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 be dependent largely upon the last and least desirable.⁴¹ (C)

⁴¹"R.K." to Deputy A, "Operation RUSTY," 16 October 1946, (C), in DO Records, € -
 ≈, Box 5, Folder 2, CIA ARC (C). The identity of the correspondent is uncertain although it may have been Rolfe Kingsley. In November 1946, Vandenberg asked the Army to send

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In a letter to Gen. Vandenberg, Col. Galloway reiterated CIG's concerns about RUSTY's costs and questions about its security. He also recommended that CIG not take over the operation.⁴² (S)

The Bossard Report (U)

Both the Army and CIG agreed in the fall of 1946 that the latter organization 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 conduct a two-month study of the German operation and its potential.⁴³ Bossard's report marked the first time that SSU or CIG had the opportunity to examine on its own the operation and to interview Gehlen and Baun as well as other members of the German group. Unlike Crosby Lewis, Bossard reached a positive impression of Operation RUSTY.⁴⁴ "The whole pattern of operation," Bossard proclaimed in the first paragraph

Gehlen and Baun to the United States for conferences with the CIG. See DCI to Maj. Gen. Stephen J. Chamberlin, Director of Intelligence, "Operation RUSTY - Use of the Eastern Branch of the Former German Intelligence Service," 20 November 1946, (C), in DCI Records, [] Box 13, Folder 549, CIA ARC. (C)

⁴²Galloway to DCI, "Operation RUSTY," 17 October 1946, (S), in DO Records, [] Box 5, Folder 9, CIA ARC. This document appears as an annex to the Bossard Report. (S)

⁴³The New York meeting on 19 December 1946, organized by Gen. Vandenberg, brought together a number of top American intelligence figures to discuss RUSTY. Held at the apartment of Allen Dulles, the meeting included Dulles, William H. Jackson (both special advisers to CIG), Brig. Gen. Edwin K. Wright (DDCI), Brig. Gen. Sibert, Col. Galloway, Col. Laurin L. Williams of Army G-2, Lt. Col. 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." [] See also Helms, Memorandum for the Record, "Operation Rusty," 19 December 1946, [no classification listed], in DO Records, [] Box 5, Folder 9, CIA ARC. (S)

⁴⁴Samuel B. Bossard was born in 1912 and received degrees from Princeton and Columbia Universities. He studied in Germany before the war and, with his language skills, served as an interrogator in American prisoner-of-war camps until joining OSS in 1944. Assigned to X-2 in

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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."⁴⁵ (S)

In a stunning reversal of the 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 counter-intelligence 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 [rather] than a criticism of the present organization and its operating personnel."⁴⁶ (S)

In Bossard's viewpoint, Operation RUSTY had proven to be a useful anticommunist 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 believed that Operation RUSTY offered the Americans a readymade, knowledgeable German intelligence service that

London, Bossard became an officer and acted as liaison between OSS and British intelligence. He was stationed in London when he was detailed to examine the Gehlen Organization in 1947. In 1949, Bossard handled CIA's Washington desk for matters regarding the new German intelligence service. Bossard resigned from the Agency in 1950 and died in 1996. □

□
⁴⁵Chief of Station, Karlsruhe to Chief, Munich Operations Base, "RUSTY," 2 November 1948, enclosing undated, unsigned Bossard Report with charts, (S), in DO Records, □ □ Box 3, Folder 1, CIA ARC. For copies of the existent reports submitted by Bossard, see Ruffner, *Forging an Intelligence Partnership*, Vol. I, pp. 335-378. Further discussion of the Bossard Report is found in "Gehlen History," pp. 34-37. (S)

⁴⁶Ibid. (S)

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formed a "strong core of resistance to Russian aggression."⁴⁷ Impressed with the anticommunist sympathies of the Germans and the breadth of their contacts (especially with various emigre 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."⁴⁸ (S)

He made eight recommendations to the DCI, with the bottom line being that the Central Intelligence Group should take responsibility for RUSTY. Noting RUSTY's personnel problems, Bossard advised that CIG should eliminate those members whose "past records, previous connections, or actions constitute potential sources of political embarrassment or are actual threats to our security," specifically mentioning Russians as well as members of the Nazi party and SS. These men, Bossard stated, should "as far as possible" be used only as agents as opposed to actual employees of the German organization.⁴⁹ (S)

Washington in a Flurry (U)

Bossard's findings unleashed a flurry of activity in Washington during the summer and fall of 1947. On 3 June, Col. Galloway reversed his previous stand and recommended to Adm. Hillenkoetter, who had just taken over as DCI from Gen. Vandenberg, that he approve the Bossard Report. Col. Galloway remained concerned that support of the German intelligence service could conflict with both State Department policies dealing with a "potential resistance group" as well as interfere with the signals

⁴⁷Ibid. (S)

⁴⁸Ibid. (S)

⁴⁹Ibid. (S)

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intelligence work of the US Army and Navy. Accordingly, he added that CIG's takeover of RUSTY should be cleared through the G-2 at European Command and brought to the attention of the National Intelligence Authority (predecessor of the National Security Council).⁵⁰ (S)

A few days later, Adm. Hillenkoetter prepared a memorandum for his superior in the National Intelligence Authority. He expressed the "strong" recommendation that "Operation RUSTY be liquidated and that CIG assume no responsibility for its continuation or liquidation."⁵¹ Hillenkoetter felt that the Central Intelligence Group should have no connection with RUSTY without the knowledge and approval of the National Intelligence Authority. (S)

Hillenkoetter's draft recommendation discredited in effect the Bossard Report and Col. Galloway's advice. It raised a furor in Army circles. On 19 June 1947, the DCI discussed Army-CIG relations and Operation RUSTY with Maj. Gen. Stephen J. Chamberlin, the Army's Director of Intelligence. Hillenkoetter warned Chamberlin about the national security risks posed by the American support of a resurgent German General Staff and intelligence service. Gen. Chamberlin agreed that this perception created problems and promised to have Maj. Gen. Robert L. Walsh, EUCOM's G-2, oversee tighter control over the operation.⁵² Chamberlin persuaded Hillenkoetter not to send his

⁵⁰Galloway to DCI, "Operation RUSTY," 3 June 1947, DOTS 1171, (S), in DO Records, ☐
☐ Box 498, Folder 1, CIA ARC. A draft of the cable from CIG to G-2 EUCOM is also included. A copy of the actual cable, Director, CIG to G-2, EUCOM, 5 June 1947, War 99500, OUT 2890, (S), is found in DO Records, ☐ ☐ Box 7, Folder 203, CIA ARC. (S)

⁵¹DCI to Secretaries of State, War, Navy, and Personal Representative of the President, "Operation 'RUSTY,'" (S), in DCI Records, ☐ ☐ Box 11, Folder 481, CIA ARC. This document contains marginalia, dated 20 June 1947, written by Brig. Gen. Edwin K. Wright, DDCI, about the decision not to send this memorandum. (S)

⁵²Wright, Memorandum for the Record, 20 June 1947, (C), in DCI Records, ☐ ☐ Box 13, Folder 549, CIA ARC. In addition to Hillenkoetter and Chamberlin, Gen. Wright and Col. Williams also attended the meeting. For another description of this meeting, see Cable,

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draft and urged the CIA to keep an open mind on the question of assuming RUSTY. For its part, the Army momentarily relented in its efforts to have the CIG take over the German organization. (S)

Uneasiness in Pullach (U)

While the CIG and the Army debated the merits of Operation RUSTY from a distant vantage point in Washington, Lt. Col. Deane monitored the almost-daily growth of Gehlen's intelligence service. The hectic expansion of agents and reports in 1946 presented a serious control challenge. Upon his return from the United States, Gehlen had discovered that Baun had his own plan for a German intelligence service. Gehlen resented Baun's grasp for control of the organization and worried about the costs and security of Baun's agents. With the help of the Americans, Gehlen gradually removed Baun from the leadership of the service during the course of 1947.⁵³ The Army, in the meantime, took steps to improve its control over RUSTY, including the formation of a military cover organization, the 7821st Composite Group.⁵⁴ Just before RUSTY moved

Washington to Heidelberg, 27 June 1947, Washington 3718, OUT 3718, (S), in DO Records, ☐
☐ Box 9, Folder 220, CIA ARC. (S)

⁵³The Army and CIG discussed bringing Baun to America for several months in order to prevent him from "going independent." Bossard, Memorandum for the File, "Removal of Lt. Col. Hermann Baun to the United States," 3 September 1947, DOTS-1121, (S), in DO Records, ☐
☐ Box 498, Folder 4, CIA ARC. 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)

⁵⁴ CIG's recommendations to Gen. Chamberlin for changes in RUSTY are found in a 27 June 1947 untitled, unclassified note written by Bossard, in DO Records, ☐ ☐ Box 5, Folder 9, CIA ARC. 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, DO Records. ☐ ☐ Box 2, Folder 3, CIA ARC. (S)

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from Oberursel to its own compound in Pullach, near Munich, in the late fall of 1947, Col. Willard K. Liebel replaced Deane as the Operations Officer for the German project.⁵⁵ (S)

There was still little enthusiasm for RUSTY among members of the new Central Intelligence Agency. Henry Hecksher, who had served as chief of the German Mission's Security Control branch during 1946-47, explained to Richard Helms in March 1948 that while RUSTY "enjoys the unqualified backing of the Army in Germany," it seemed likely 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," Hecksher 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."⁵⁶ (S)

Headquarters received more complaints about RUSTY over the course of 1948. With great disgust, [redacted] [redacted], acting chief of the Karlsruhe Operations Base, related his experiences with RUSTY in a 19 August memorandum. [redacted] [redacted] had encountered Baun's operatives in the summer of 1946 when the Counter Intelligence

⁵⁵Reese, *General Reinhard Gehlen*, pp. 93-97. Relations between Liebel and Gehlen deteriorated soon after Liebel's arrival; in part due to the American officer's insistence on obtaining identities of the German agents. Col. Liebel also criticized Gehlen (referred to by his operational name Dr. Schneider) for poor security practices. Capt. Waldman supported Gehlen's stand during this period, which created tension within the American chain of command. For this letter, see [Colonel Liebel] to "Dr. Schneider," 3 March 1948 and Gehlen's vehement reply, "Dr. Schneider" to Col. Liebel, 11 March 1948, in DO Records, [redacted] [redacted], Box 5, Folder 9, CIA ARC. Liebel departed Pullach in August 1948 and Col. Russell Philp, an old "Blue House" veteran, arrived as his successor in December 1948. Liebel's blackmarket activities and the poor state of discipline among US military personnel assigned to Pullach affected the Army's efforts to tighten control over the Germans. [redacted] [redacted]

⁵⁶Hecksher to Helms, "Operation RUSTY," (S), 18 March 1948, in DO Records, [redacted] [redacted] Box 5, Folder 8, CIA ARC. (S)

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Corps arrested a number of Germans who claimed to work for American intelligence.⁵⁷ CIC informed SSU about these arrests and [redacted] investigated the backgrounds of the 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."⁵⁸ (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." [redacted] 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, [redacted] lamented, "the distribution of operational supplies, money, etc. was so loose and elaborate that the influence on the black market certainly was considerable."⁵⁹ (S)

[redacted] protested any plans for future association between this group and the CIA. In a lengthy summary, [redacted] presented the viewpoint of many CIA officers:

⁵⁷CIG officials in Austria also protested against the actions taken by Capt. Waldman and RUSTY in Germany to launch operations in Austria. See Security Control Division, Austria to Acting Chief, FBM, "USFET Intelligence Operations in Austria," 13 March 1947, LSX-593, (S), enclosing [redacted] to John H. Richardson, "USFET Intelligence Operations in Austria," 12 February 1947, SBM-18, (S), in DO Records, [redacted], Box 514, Folder 2, CIA ARC. (S)

⁵⁸Chief of Station, Karlsruhe to Chief, FBM, "RUSTY," 19 August 1948, MGKA-2722, (S), in DO Records, [redacted], Box 5, Folder 8, CIA ARC. (S)

⁵⁹Ibid. (S)

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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 that can be expanded at will.⁶⁰ (S)

□ □ formerly chief of X-2 in Germany and now head of the Munich Operations Base, reported his views of RUSTY in a July 1948 memorandum to Gordon Stewart, the chief of mission in Germany. Like his colleagues, □ □ protested RUSTY's poor security practices and its "free-wheeling" methods of agent recruitment. □ □ expressed particular distaste at RUSTY's abuse of the denazification laws, which undermined the operation's overall standing. □ □ quoted a "local cynic" 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."⁶¹ (S)

In summarizing the sentiments of Agency officials in Germany, Richard Helms told Col. Galloway in March 1948, "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

⁶⁰Ibid. (S)

⁶¹Chief, Munich Operations Base to Acting Chief of Station, Karlsruhe, "RUSTY," 7 July 1948, MGM-A-602, (S), in DO Records, □ □ Box 5, Folder 8, CIA ARC. (S)

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dominated press in Germany concerning the use of former German staff and intelligence officers are such that there is 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."⁶² (S)

Little by little, however, the Army managed to get CIA more involved with RUSTY, despite the complaints from the field and even DCI Hillenkoetter's opposition. In December 1947, Gen. Walsh brought up the issue of the Agency's taking over of RUSTY with [redacted], then CIA's chief of base in Berlin. Walsh maintained that while the Army's running RUSTY in 1947 might have been considered a "sin of commission," the failure to run it in 1948 would constitute a "sin of omission."⁶³ (S)

As late as mid-1948, Hillenkoetter continued to resist the Army's overtures to assume control of RUSTY. In July, 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.⁶⁴ (S)

⁶²Helms to ADSO, "RUSTY," 19 March 1948, (S), in DO Records, [redacted], Box 5, Folder 8, CIA ARC. For a copy of one such Soviet article, see Chief of Station, Heidelberg to Chief, FBM, "Russian Newspaper Attack on American Intelligence Activities," 6 February 1948, MGB-A-1248, (C), in DO Records, [redacted] Box 5, Folder 8, CIA ARC. (S)

⁶³"Highlights of Conversation with W," undated, (S), in DO Records, [redacted], Box 5, Folder 8, CIA ARC. (S)

⁶⁴DCI to the Director of Intelligence, "Letter-AGAO-S-D-M 40 TS (23 Oct 46), Subject: Supplies and Equipment for the Central Intelligence Group," 30 July 1948, (C), in DCI Records, [redacted] Box 13, Folder 549, CIA ARC. (C)

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At the same time, Hillenkoetter provided Gen. Chamberlin with some news about RUSTY that he had learned from various sources. In one case, Samuel Bossard, back in England, had received a letter from a mysterious "R. Gunner" about "some dangerous points." Gunner, believed to be Gehlen, asked for Bossard's "personal advice concerning certain business questions" and wanted him to come to Munich.⁶⁵ Disagreements between Gehlen and his American military counterpart, Col. Liebel, now made their way to the highest levels of CIA. The entire project appeared on the verge of disintegration.⁶⁶ (S)

The Critchfield Report (U)

Matters quickly came to a head after this point, forcing CIA to consider whether it should maintain a German intelligence organization. While the Army finally took steps to issue some priorities in terms of targets and geographic regions for RUSTY, Gen. Walsh, informed Adm. Hillenkoetter in October that the Army could no longer fund RUSTY for any activities other than Order of Battle intelligence.⁶⁷ During a visit to Germany, the DCI discussed the matter with Walsh and agreed to provide limited funds while the CIA conducted yet another investigation of the Army's German operation.

⁶⁵DCI to Chamberlin, 31 August 1948, (C), in DCI Records, [[], Box 13, Folder 549, CIA ARC. Another copy of this memorandum also appears in DO Records, [[] Box 5, Folder 8, CIA ARC. (S)

⁶⁶Headquarters told its officers in Germany to refrain from forwarding information about RUSTY to Army officials there because the Army apparently regarded the news as "sniping." See Cable, SO to Heidelberg, Washington 2664, OUT 58734, 13 February 1948, (S), and Stewart to Helms, "RUSTY," 17 February 1948, MGH-A-4058, (S), both in DO Records, [[] Box 5, Folder 8, CIA ARC. (S)

⁶⁷For the agenda of the meeting between the Army, Air Force, and Gehlen and list of priorities, see "Minutes of Meeting," 1 October 1948, (S), in DO Records, [[], Box 2, Folder 3, CIA ARC. (S)

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Immediately prior to Adm. Hillenkoetter's agreement with the Army, Col. Galloway and Gordon M. Stewart conferred about RUSTY. They concluded that the Agency needed to penetrate RUSTY, and "pay particular attention to its attempts to become the official German intelligence service."⁶⁸ (S)

On 27 October 1948, Col. Galloway informed Stewart that he wanted James H. Critchfield to examine RUSTY. Critchfield's mandate specified that he should evaluate RUSTY's Order of Battle facilities and determine which elements should either be penetrated by the CIA, exploited, left with the Army, or liquidated. The report, Galloway noted, should be thorough, but also completed within a month.⁶⁹ (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 1948.⁷⁰ 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.⁷¹ In an extensive study (his full report,

⁶⁸Chief of Station, Karlsruhe to Chief, FBM, "RUSTY," 15 October 1948, MGK-A-3583, (S), in DO Records, [] [] [], Box 5, Folder 9, CIA ARC. (S)

⁶⁹Cable, SO to Karlsruhe, 27 October 1948, Washington 4193, OUT 70606, (S), in DO Records, [] [] [], Box 5, Folder 9, CIA ARC. Richard Helms also provided some guidance for this investigation in Chief, FBM to Chief of Station, Karlsruhe, "RUSTY," 2 November 1948, MGK-W-914, (S), in DO Records, [] [] [], Box 5, Folder 8, CIA ARC. (S)

⁷⁰Born in 1917, James H. Critchfield joined the CIA in March 1948. An officer who had risen from second lieutenant to lieutenant colonel in four years, Critchfield had seen extensive combat in Europe. Following the war, Critchfield served as the chief of the Third US Army's Counter Intelligence Branch from March 1946 to January 1947 and as chief of the Intelligence Branch of the United States Forces in Austria from January 1947 to January 1948. Critchfield retained his US Army rank on joining the CIA, and he was chief of the Munich Operations Base from September 1948 to March 1949. In June 1949, Critchfield assumed control of the Pullach Operations Base, the Agency's point of contact with Gehlen, until 1956. Critchfield later held senior positions in the DD/P and served as the National Intelligence Officer for Energy until he retired in 1974. Personnel file, James H. Critchfield, [] [] []

⁷¹Cable, Karlsruhe to SO, 17 December 1948, Karlsruhe 2925, IN 19522, (S), in DO Records, [] [] [], Box 5, Folder 9, CIA ARC. (S)

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with annexes, arrived at Headquarters after that point), he and several associates examined the Army's relationship with RUSTY, its funding, organizational structure, intelligence reporting, operations and procedures, and Gehlen's own plans for his group. Critchfield's report stands as the Agency's most thorough review of the growing German intelligence service.⁷² (S)

He also set the tenor for future CIA relations with Gehlen. While Critchfield made several important points, the CIA officer observed that the Agency 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.⁷³ (S)

As Critchfield pointed out, RUSTY was a *fait accompli*, regardless of whether the 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."⁷⁴ The Agency now believed that the United States could no

⁷²Chief of Station, Karlsruhe to Chief, OSO, "Report of Investigation-RUSTY," 17 December 1948, MGM-A-878, MGTS-11, (S), in DO Records, [redacted], Box 3, Folder 4, CIA ARC (hereafter cited as "The Critchfield Report.") (S)

⁷³Ibid., p. 10 of the "Basic Report" in "The Critchfield Report." (S)

⁷⁴Ibid. (S)

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longer simply dismantle RUSTY, prompting the CIA to take control from the Army in the summer of 1949. Hillenkoetter 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."⁷⁵ (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, dickered over the CIA's assumption of RUSTY.⁷⁶ At the same time, Critchfield in Pullach had his hands full with an acrimonious dispute between Gehlen and Col. Philp, the US Army commander on the scene.⁷⁷ With Gen. Clay's departure from Germany in May, the Agency took full responsibility for the Gehlen Organization from the US Army on 1 July 1949.⁷⁸ (S)

⁷⁵Helms, Memorandum for the Files, 1 February 1949, (S), in DO Records, [] , Box 5, Folder 9, CIA ARC. (S)

⁷⁶For correspondence during this delicate transition period, see S. Leroy Irwin, Director of Intelligence to DCI, "Operation 'Rusty,'" 19 January 1949, SD-13884, (S); Cable, SO to Karlsruhe, 9 February 1949, Washington 8885, OUT 75997, (S); [] , Executive Officer to Chief of Operations and Chief, FBM, "ODEUM," 1 April 1949, (C); Cable, SO to Karlsruhe, 16 May 1949, Washington 3624, OUT 81439, (S); all of these documents (with the exception of the [] memo) are located in DO Records, [] , Box 5, Folder 9, CIA ARC. The [] memo is found in DO Records, [] , Box 2, Folder 6, CIA ARC. (S)

⁷⁷Chief, FBM to Chief of Station, Karlsruhe, "Operational, 10 February 1949, MGK-W-1361, (S), enclosing Alan R. McCracken, Acting ADSO to Maj. Gen. S. Leroy Irwin, Director of Intelligence, "Operation Rusty," 9 February 1949, in DO Records, [] . Box 5, Folder 9, CIA ARC. For further information on the hostile environment at Pullach, see Chief of Station, Karlsruhe to Chief, FBM, "Letter to General Hall," 10 February 1949, MGM-A-961, (S), and Chief of Station, Karlsruhe to Chief, FBM, "ODEUM: Current Situation," 18 April 1949, MGM-A-1094, (S), both in DO Records, Job 78-02133R, Box 5, Folder 9, CIA ARC. (S)

⁷⁸Shortly after CIA took over RUSTY from the Army, the Office of the US High Commission for Germany (HICOG) assumed control from the Office of the Military Government (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

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Advisers and Liaison (U)

Even prior to the official transfer, Critchfield specified the terms of agreement between the CIA and the German organization. The reform of the German currency in 1948 hurt Gehlen's operations and resulted in extensive budget negotiations for the next two years. The basic agreement reached by Critchfield and Gehlen in June 1948 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."⁷⁹ (S)

Critchfield acknowledged, "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 Central Intelligence Agency would remain the dominant partner. Critchfield, for example, would specify intelligence priorities to Gehlen and "complete details of operational activities will be available to US staff." While American officials would deal with the Germans in "an advisory and liaison capacity," Critchfield planned to scrutinize

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)

⁷⁹Chief of Station, Karlsruhe to Chief, FBM, "Basic Agreement with ODEUM," 13 June 1949, MGL-A-8, (S), in DO Records, [redacted], Box 5. Folder 9, CIA ARC. (S)

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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."⁸⁰ (S)

Relations between the Agency and the German intelligence service in subsequent years were often at odds. Gehlen resented the CIA's 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 ten. 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."⁸¹ (S)

In Hindsight (U)

The CIA now found itself in a similar quandary as the Army had been in dealing with ODEUM (the Agency's new name for RUSTY).⁸² It provided considerable funding

⁸⁰Ibid. (S)

⁸¹□ □ □ through XI-7. For more complete details of the conflict between CIA and Gehlen, see "Gehlen History." (S)

⁸²The Agency 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 UPHILL and UPSWING. CIA's Pullach Base stopped using the Army's cover as the 7821st Composite Group and became known as Special Detachment, EUCOM, or the 7878th Signal Detachment. This later changed to Special Detachment, US Army Europe, and then to the US Army Technical Coordinating Activity. □

□

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and support to Gehlen, but had little actual control over the service.⁸³ This marked, perhaps, the greatest shortcoming of the Agency's work with the West German intelligence service and created long-term problems for both the Americans and Germans.

(S)

The Gehlen Organization has long been accused of acting as a shelter for Nazis and those who committed crimes during the Third Reich. Because of their sponsorship of the German intelligence service, the US Army and CIA are implicated in this criticism. From the earliest days, SSU, CIG, and later CIA recognized this as a problem and, in fact, warned the Army about supporting Gehlen. After 1949, CIA inherited these same concerns and, while it curbed Gehlen's viewpoints on the American war crimes program, the Agency could never get the Germans to "clean house."⁸⁴ (S)

On occasion, the Agency tried to determine the composition of the German intelligence service and the number of former NSDAP party members. A CIA staff

⁸³The CIA initially provided Gehlen with [] per month in 1949 to run his operations. By 1955, the Agency had an annual expense for over [] to support the West German intelligence service. Between 1950 and 1968, CIA spent [] on Gehlen's organization and US liaison operations. The CIA received some funding support from the Army while [] in the early days, increased its revenue through black market activities. The Agency never had full access to the identities of Gehlen agents, forcing the Agency to employ clandestine means to identify German intelligence personnel. []

⁸⁴For Gehlen's viewpoints concerning American war crimes trials of German officers, which resulted in a stir between CIA and the German service, []

[] By 1953, the official perception of CIA and Gehlen's intelligence service had become so entwined that even Roger M. Keyes, Deputy Secretary of Defense criticized the Agency's role in Germany. Frank Wisner, now DD/P, responded, "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. 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." Wisner to DCI, "Communications from Under Secretary of Defense dated 4 December and Relating to (a) Military Cover for CIA Operations; and (b) Deficiencies in Intelligence Collection and Dissemination," 12 December 1953, TS 92318, (C), in DO Records, [] [], Box 13, Folder 16, CIA ARC. (C)

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officer at Pullach estimated in the mid-1950s that some 13 percent of Gehlen's organization (76 out of 600 identified "ZIPPERites") were "known to have been either former SS, SD, SA members, NSDAP members, War Crime offenders and/or a combination of the same." A few years previously, Gehlen had told Critchfield (who served as the CIA's contact with the Germans and as chief of CIA's base at Pullach from 1948 through 1956) that 28 percent of his officers had been Nazi Party members. The German general expressed an ironic pleasure that his intelligence service had a lower percentage of SS and Nazi party members than had the German Bundestag in 1953.⁸⁵ (S)

□ □, who conducted the unofficial survey of Nazis within the German service, did uncover several "individuals still in the employ of ZIPPER whose records appear from a qualitative standpoint particularly heinous." He listed these five members of Gehlen's group (Arwed Flegel, Willy Heinrich Friede, Conrad Fiebig, Otto Somann, and Karlgeorg Wellhoener) and discussed their Nazi records and service with Gehlen. □ □ noted, "we feel it is a bit late in the game to do anything more than remind UTILITY [Gehlen's CIA cryptonym] that he might be smart politically to drop such types."⁸⁶ Despite American apprehensions, Gehlen's BND did not purge these Nazi

⁸⁵[Unsigned] to EE, "Former Nazi and SS Membership in ZIPPER, circa 1954, (S), in DO Records, □ □, Box 2, Folder 4, CIA ARC. □ □ identifies □ □ as the author of the CIA memorandum about Nazis in the West German intelligence service. Apparently, □ □ never sent this memorandum to Headquarters. □ □

⁸⁶[Unsigned] to EE, "Former Nazi and SS Members in ZIPPER," circa 1954, (S), in DO Records, □ □, Box 2, Folder 4, CIA ARC. CIA records indicate that Arwed Flegel, for example, was a Waffen SS officer who had escaped from an internment camp in 1946, but was recaptured by the British later that year. By 1953, the Agency reported that Flegel was involved in a scandal in northern Germany involving rivalries between the Gehlen Organization and a local security service. See Arwed Flegel, □ □, DO Records. In the case of Konrad Fiebig, CIA's records indicate that he was wanted by the Army's CIC in 1946 for mass murder. A brief notation indicates that Fiebig was a suspected member of an SD *Einsatzkommando* in Russia during the war. Fiebig was later charged, but found not guilty of the charges, by a West German court in 1962. The BND, however, dismissed him for falsifying his

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leftovers until the 1960s after the Service had been rocked by a series of spy scandals.⁸⁷

(S)

With the collapse of the Berlin Wall and the reunification of Germany, the full extent of the communist penetration of the Gehlen Organization and its successor, the *Bundesnachrichtendienst*, has become more apparent. The KGB's ability to use former Nazi officials as agents from the first days in the mid-1940s led to further exploitation of the West German intelligence services by the East German STASI until 1989. The concerns of the OSS, SSU, CIG, and CIA about RUSTY's security proved a belated finale of the Gehlen Organization's legacy. (S)

record. See Konrad Fiebig, [redacted] DO Records. Gehlen also cultivated support from some of Germany's most prominent military and political leaders. Gehlen placed a German general in charge of these Special Connections (*Sonderverbindungen*) to cultivate their assistance. By 1951, [redacted], a CIA staff member at Pullach, determined that Gehlen had at least 207 Special Connections from all elements of German society. In his first report in 1950, [redacted] noted that the "Special Connections reach into the Government, the political parties, the former officer corps, the former NSDAP and SS, the diplomatic corps, the legal and medical profession, the press . . . the industrialists, the aristocracy, the intellectuals, the state police forces." The Special Connections offered Gehlen access to information throughout the country but also tied the new organization to the power structure of the old Nazi regime. [redacted]

⁸⁷Gehlen's intelligence service suffered from a rash of intelligence scandals, including the Felfe case, perpetrated by members of the BND who had served in the SS during World War II. [redacted]