MEMORANDUM FOR: The Director, Central Intelligence

SUBJECT: Recommendations in re Operation Rusty

1. As the result of a request to the Director, CIA, from the Director of Intelligence, EUPHM, Operation Rusty was briefly investigated by this organization in the period between 10 November and 15 December 1948. The purpose of this investigation was to determine in a preliminary way the character of Operation Rusty with a view to facilitating a decision as to whether or not the CIA should become the Army's request that it 'take over' this operation.

2. This memorandum is predicated on the assumption that CIA is willing to assume the responsibility for Operation Rusty with the understanding that certain provisions shall be agreed to by the Army as prerequisites to this assumption of responsibility.

3. It is recommended that these provisions include the following:

   (a) That the National Security Council be informed concerning Operation Rusty, its origin, and its development to date.

   (b) That the National Security Council direct that CIA "take over" Operation Rusty as to financial support, operational and administrative direction, etc., but that simultaneously the National Security Council further direct that CIA be given the same logistical support in Germany which the Army, the Air Forces, and other American agencies have been accorded the operation to date. This provision is to include support from the German economy as long as the United States is the status of an occupying power.

   (c) That CIA finance Operation Rusty on an annual budget not to exceed 50

   (d) That it be clearly understood by all interested agencies that, although CIA will run Operation Rusty for the benefit of the U.S. occupation forces, it will have complete...
authority and control to handle the operation as it sees fit.

(e) That if CIA is directed by the National Security Council to "take over" Operation Rusty, that it be given a period of at least one year during which the current managers would continue on duty, but under control of CIA representatives assigned to the project.

4. In support of the above recommendations, it might be advisable to point out briefly the reasons for these proposals. As regards (a), the national and international political implications of a reconstructed German Intelligence Service with German General Staff ramifications are such that it would be most hazardous from a domestic political viewpoint for this organization to become involved without specific directive from the Executive. In addition, the security and basic orientation of Rusty is most dubious, since we know of at least two instances of personnel with offers of direct liaison. As for (b), the US Special Operations is in no way set up to carry the personnel and administrative load involved in operating a fleet of 4,000 Germans. Without the personnel and logistic support already contributed by other agencies, CIA would not be able to support Rusty. With regard to (c), it is felt advisable to put a ceiling on the number of dollars to be allocated to Rusty in a given year, since such another currency reforms in Germany or other factors might shoot the cost too high in a manner not anticipated. It is felt that Rusty deserves some budgetary protection against such a contingency. On point (d), little explanation is needed, except that CIA's position would be untenable over the long pull if it did not have complete control of the operation. As regards (e), it is absolutely essential that CIA be given sufficient time to find out in precise terms and with Army assistance detailed characteristics of the organization for which it is assuming the responsibility. It is abundantly clear that we do not know very much about the inner-workings of the Rusty organization, and it is probable that the Army does not either. Without being able to run treass on personnel and examine specific details of the operations with Army assistance and personnel, we might well lay CIA open to wholesale penetration by the Rusty organization. Further, we have no idea whether or not the Russians are feeding deception into the Rusty pipeline. If they were the case, and Rusty, a 4,000 strong, were planted, immediately and solely on our doorstep, we, as an organization in Europe, would be in no position from a personnel standpoint to handle the operations alone securely and carefully with consequences which are obvious.

5. No attempt has been made in the foregoing to go into details regarding Operation Rusty. It is simply a brief statement of
the conviction that unless CIA takes on this operation under its own terms, it should not be taken on at all and should be regarded as a friendly though competitive intelligence service with all that that implies.

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