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20. Lewis to Richard Helms, Acting Chief of FBM, 8 October 1946, enclosing
Lewis to Donald H. Galloway, Assistant Director for Special Operations,
22 September 1946

STRATEGIC SERVICES UNIT, WAR DEPARTMENT
MISSION TO GERMANY
U. S. Forces, European Theater
APO 757

COPY No. []

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8 October 1946

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Mr. Richard Helms
Acting Chief, FBM
SSU, WD, Washington 25, D. C.

Dear Dick:

Attached is a memorandum which Colonel Galloway asked me to prepare describing informally my connection with the group of people now constituted as KEYSTONE Operation and my general views on feasibility.

If I seem to have been repetitive, it was because the memorandum was written in a great hurry, but I nevertheless wanted to make quite clear what responsibilities I thought we would be incurring if we undertook it. No doubt Colonel Galloway will discuss this with you himself.

Sincerely,

[]

CROSBY LEWIS
Chief of Mission

CL:HM
Attach

CENTRAL INTELLIGENCE AGENCY
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Date []

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STRATEGIC SERVICES UNIT, WAR DEPARTMENT
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COPY No. 2

~~SECRET/RELEASE~~
~~TO GERMANY ONLY~~ 22 September 1946

Downgraded 11 May 1954
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SUBJECT: Keystone Operation

TO : Colonel Donald H. Galloway ONLY

1. My connection with the personnel who constitute the group under consideration as Operation Keystone began in the end of October 1945, when I was approached by Lieut. Colonel William Connor, Chief, Intelligence Branch, G-2 Division, USFET. Colonel Connor gave me two reports which turned out to be operational plans written by Oberst BAUH, a war-time member of FREUDE HEERE OST. These two plans contained [rather grandiose and vague] suggestions for the formation either of a European or a world-wide intelligence service to be set up on the basis of the war-time and pre-war connections of Oberst BAUH and his colleagues, the ultimate target of which was to be the Soviet Union. The essence of each plan was that the organization would be controlled by BAUH under American supervision and that the Americans would simply give to him intelligence directives, for which he would produce the answers. It did not contemplate American control at any point below BAUH. As I recall, the world-wide scheme was estimated to cost eight million dollars a year and the European-wide scheme two and one-half million dollars a year.

2. I studied these documents carefully and then made investigation to collect available CI interrogation reports on BAUH and others who had been working with him during the war. I found that there were practically no interrogation reports available, as those personnel of FREUDE HEERE OST who had been captured by the Americans had not been interrogated.

3. Colonel Connor put me in touch with a Captain Comstock, who was at the MIS Center at Oberursel, who arranged for me to interrogate BAUH, but when I arrived at Oberursel I discovered that BAUH was not treated as an ordinary prisoner but more as a "guest" and that he was not susceptible to interrogation. He answered a few questions with a good deal of reserve and gave [particularly] vague reports as to the whereabouts of his agent files and ciphers.

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Colonel Galloway

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4. In discussions with Captain Comstock I learned that quite a few of the personnel of FREMDE HEERE OST, including General von Gehlen, were in the United States, having been taken there by G-2, War Department, for special interrogation on Russian matters.

5. After some thought I advised Colonel Connor that in my opinion SSU would not undertake to sponsor such operations as proposed by either of BAUN's two plans under the conditions imposed by BAUN. I pointed out that SSU would have to have complete control of any operation it undertook and that it would have to have all information on agents and sub-agents. Moreover, I considered the security hazards very serious as a number of BAUN's former colleagues were in Russian hands and I understood that the Russian authorities had requested Americans to turn over to them General von Gehlen, Oberst BAUN, Lieut. Colonel von Wesel, Schmaischlaeger, and others by name. An additional consideration which would involve a policy decision on a very high level would arise from the fact that in using this group, SSU would be in effect reconstituting a sizeable portion of the German Intelligence Service and under the terms imposed by BAUN (and ultimately met by G-2 USFET) reconstituting it intact. Furthermore, at that time (October 1945) the budget as proposed by BAUN was utterly out of the question.

6. Since then, we have heard from various sources of the activating of the operation under Lieut. Col. Dean's control substantially along the lines recounted by Lieut. Colonel Dean to you this afternoon. In the past six weeks evidence of this operation has come increasingly to our notice through what may be considered to be serious breaches of security. On one occasion we were placed in contact through our relationship with the [] in Berlin with a man named [] who had worked for BAUN during the war. He had been captured by the [] and had been used by them as an agent in the Hamburg area. At the time of the contact he was living in the Russian Zone in Berlin where he had been repatriated as a discharged prisoner of war. In the course of attempting to extract favorable treatment from the [] in Berlin, he mentioned the fact that he was aware that the Americans were using many of his former friends who had been with him in FREMDE HEERE OST and, in fact, had transported some of them to the United States. Another incident concerned one of the expert documents men of FREMDE HEERE OST who was likewise living in Berlin. This man had been in America with von Gehlen and had returned with him.

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a few months ago. We got into contact with him through a Russian double-agent operation, in the course of which the Russian officer whose operation we were penetrating asked to be put in touch with this man as he wished to discuss with him his trip to America and the information that he had given to the Americans. In addition to these two incidents we have been informed on three occasions by the [] Intelligence that German agents under their control (presumably the [] are also operating ex-personnel of FRENDE HEERE OST) have informed them of BAUN's activities in the American Zone, on one occasion drawing attention to the insecurity of a group of BAUN's agents at one of the centers he established at Bad Kissingen. Perhaps, however, the most outstanding breach of security which has come to our attention has come from Bamberg area, a natural jumping-off place for operations into the Russian Occupied Zone or Czechoslovakia. We have obtained a report from the CIC in Bamberg stating that they had arrested over 25 individuals who have said they were working for BAUN for the American espionage service and carried in their pockets incriminating documents including the telephone number of Captain Waldmann, who is the only other officer associated with Colonel Dean in the operation of the group. This report included the attached documents which consisted originally of a translation into German of the top secret USFET EEI, a top secret counter espionage brief and extensive amount of operational information with regard to border crossings and contacts. These documents have been translated back into English and are of considerable interest in studying the operational security of the group as now being run.

7. During his visit over here in July, Colonel Quinn had a conference with General Sibert, at which I was present, in the course of which General Sibert briefly referred to this operation and stated that he thought it had great possibilities for future exploitation. He added that he had obtained two and one-half million dollars on approval from General Vandenberg, when the latter was G-2, War Department, but he felt that this would not last much longer and that G-2 could not undertake the financing of the operation after the close of the Fiscal Year. He therefore suggested that SSU make plans to take over control of the operation. I made the counter proposal that prior to SSU accepting responsibility, a thorough study of the group, their past and current operations, be made by SSU Amzon and that on the basis of the study recommendations would be placed before SSU, Washington, and Central Intelligence Group for final decision. This appeared to be agreeable both to General Sibert and to Colonel Quinn although the decision as to further action was left in General Sibert's hands.

Director of Intelligence

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8. Shortly before General Sibert left for America I wrote the attached letter which contained certain conditions, which in my view would have to be met before SSU Amzon could take over the operation. General Sibert agreed in general to these points and stated he would discuss the matter with General Vandenberg on his return. In the meantime, a copy of this letter was sent to Mr. Helms, Acting Chief, Foreign Branch M.

9. While there can be no doubt of the very real possibilities of perhaps spectacular intelligence procurement in the exploitation of this group (after all Oberst BAUM has been engaged in anti-Russian intelligence since 1921), 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.

CROSBY LEWIS
Chief of Mission

CL:HM

Attach 2

CC: Acting Chief, Foreign Branch M

Note: Reference letter in paragraph 8, Subject: Operation KEYSTONE, To: General Sibert, dated 6 September,

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