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By SJP NARA Date 06/08/02

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- 43. Galloway to DCI, "Operation RUSTY," 3 June 1947, enclosing Bossard to DCI, "Operation Rusty," with annexes, 29 May 1947

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~~TO GERMANY ONLY~~ 3 June 1947

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MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

Subject: Operations RUSTY

1. There is transmitted herewith the report of Mr. Samuel Bossard, the CIG representative who recently completed a survey of Operation RUSTY in the European Theatre. I concur in this report and proposals.
2. In connection with this report, I recommend the following:
  - a. Dispatch of a cable to the Assistant Chief of Staff, G-2, EUCOM, substantially along the lines of the attached draft.
  - b. That, provided there is no objection on the part of G-2, EUCOM, the National Intelligence Authority be advised of this operation, calling particular attention to the fact:
    - (1) The German Intelligence organization is a potential resistance group in Germany, the continued support of which may conflict with State Department policy.
    - (2) The crypto-analytic activities of Operation RUSTY may lead to a possible conflict with the activities of the Army Security Agency and the Navy Annex.
3. If the National Intelligence Authority approves Central Intelligence taking over Operation RUSTY, it is recommended that action be taken along the lines proposed in Section IV of the attached report of Mr. Bossard.

[  
 ]  
 DONALD H. GALLOWAY  
 Assistant Director  
 Special Operations

Enclosures

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DRAFT OF SUGGESTED TELEGRAM from Admiral Hillenkoetter to General Walsh,  
AG of S, G-2, EUCOM:

After studying results of CIA representative's report on Operation  
MUSTI and with full appreciation of the values and implications of  
Operation, regard it as essential that certain considerations affecting  
the Operation be submitted to National Intelligence Authority consisting  
of Secretaries of State, War, Navy, and Admiral Leahy, for policy decisions.  
Since discussions with regard to the Operation have to date been carried  
on directly between Director, CIA, and AG of S, G-2, EUCOM, desire your  
consent to submit this matter to the National Intelligence Authority.

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29 May 1947  
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MEMORANDUM FOR THE DIRECTOR, CENTRAL INTELLIGENCE GROUP  
SUBJECT: Operation Rusty

I. BACKGROUND AND HISTORY

Operation Rusty has existed as a military intelligence service of G-2, War Department, since January 1946. The Operation developed as the result of a decision taken late in 1944 by Major General Reinhart von Gehlen and his close associates "to take all steps to hand over the entire personnel and material of the division Foreign Armies East to the United States Army" in case of the surrender of the German Army. As Commanding Officer of this German intelligence unit, Gehlen contrived to move his forces and material into Southern Swabia and Bavaria, and effected his plan for surrender toward the end of May 1945. Lieutenant Colonel Hermann Baum, Gehlen's Chief of Operations, having been separated from the remainder of Gehlen's forces, made separate contact with American authorities in July 1945.

Since Gehlen had succeeded in preserving the secret files of Foreign Armies East for the information of American authorities, and had surrounded himself with a group of senior staff officers highly trained in the procurement and evaluation of military intelligence in the Russian sphere, the entire group was transferred to the vicinity of Washington, where as prisoners of war they exploited their files and made their knowledge directly available to G-2, War Department. During the same period, Baum and his group were similarly exploited in Germany by G-2, USFEET, until it was decided that Baum should be given permission to collect his former operating staff in an effort to mount with American support a military intelligence operation against Russia.

After the return of Gehlen and his staff from the United States in the summer of 1946, he assumed his present position as head of an evaluation group in order to direct Baum serving as head of an information group in the fulfillment of the missions assigned by G-2, USFEET. Baum has remained the Chief of Operations but the product is evaluated, collated, and translated by Gehlen's group who deliver it in finished form to representatives of G-2, EUCOM. At this stage, this organization is considered by G-2, EUCOM, to be its most dependable and prolific source of information on Russian military intentions and strength.

It should be pointed out that it was suggested to OSS, before its liquidation, that it was the organization best equipped to

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direct the proposed Operation. OSS at that stage was unwilling to undertake the responsibility, not only because of the uncertainty of its own future, but because of the obvious risk of political compromise involved in operating a declared enemy intelligence unit against a declared allied nation. On October 1, 1946, General Burress presented from G-2, USFET, a staff study of Operation Rusty to General Vandenberg with the recommendation that CIG take over the Operation and conduct it from the United States. The study did not convince CIG that the Operation, as it was then presented, was valuable enough to justify the political risk and the expenditure of personnel and money, but it was later agreed that CIG would conduct its own investigation with the purpose of outlining the advantages and disadvantages of participation in the Operation. (See Annex 1.)

## II. CONCLUSIONS OF CIG INVESTIGATION

The CIG investigation has produced the following conclusions:

1. The chief personnel of Operation Rusty offer as their motivation the desire to protect Germany from further Russian encroachment or Communist penetration. (See Annex 2, Statement of Personnel, OPERATION RUSTY, Tab A, para A.)
2. They believe that they can best fulfill their purpose by making their talents as intelligence officers and their experience on Russia available to the United States, whom they consider their most effective champion.
3. The chief personnel of Operation Rusty have capitalized on the opportunity to organize by recruiting some 3,000 bodies from anti-Soviet factions in Central Europe, who, during the course of the war, gave their full support to Germany.
4. Operation Rusty has become less a clandestine intelligence operation directed by American authorities than a potential resistance group supported and fed by the United States Government.
5. Operation Rusty is the most powerful German intelligence machine which has been allowed to operate since the defeat of Germany.
6. All the lines of connection are not yet fully visible but it can be stated as a fact that they extend over an area lying between Stockholm and Rome, Prague and Paris, with a good possibility that they can be extended through the Middle East to the Far East, and into the United States and South America.

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7. There are on paper extensive plans for camouflage of various sorts which will provide the personnel with an opportunity to continue their operations independent of American support. In fact, some German capital has already gone into the organization and more will undoubtedly follow once German business is allowed to develop and expand.

8. The Operation has become known to the [ ] and possibly to the [ ] and has been a source of irritation and confusion to the operations of other American intelligence agencies in Germany.

9. The Operation has been productive chiefly because of the strength and the nature of the German personnel employed, its scope, and the looseness of American control, and these same factors have contributed heavily to the inherent risks in the project.

III. THE PRESENT SITUATION

CIG, according to the above conclusions, is now confronted with a situation in which it is compelled to take an interest. Since it is understood that G-2, War Department, can after July 1, 1947 no longer support the Operation on its own funds, the organization may under the impact of a certain withdrawal of American support constitute a source of political embarrassment to the United States Government and a security menace to American overt as well as covert activities in Germany.

IV. PROPOSAL

It is proposed, therefore, that CIG make available to the War Department funds necessary for a liquidation of Operation Rusty. As far as CIG is concerned, the liquidation proceedings are to take the form first of all of a counter-intelligence operation until it can be stated with some degree of certainty that the full ramifications of the Operation are understood and the valuable operative elements have been segregated and brought into control for long-term production. Every effort will be made to adjust the liquidation proceedings to suit the requirements of G-2, War Department, for Russian order of battle information from this source, but the liquidation should be completed not later than July 1, 1948.

If the above proposal is accepted, apart from financial commitments, it should be understood that CIG will be taking only an

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investigative interest until such time as it is prepared to make positive commitments to specific personnel of the organization. It will be understood that the responsibility for and the military personnel essential to the liquidation will be assumed by the War Department. It is further understood that the CIG representative will exercise a constant reviewing authority over the liquidation proceedings carried out by the current G-2, EUCOM, complement.

As regards the CIG representative who must be assigned to this undertaking, he will have to be a highly qualified person provided with whatever support the situation demands as the liquidation progresses. This individual will have to be chosen from among the key members of the CIG German Mission.

Appended to this memorandum is a financial statement based on actual costs of operating Operation Rusty under current conditions. (See Annex 3.) Based on these figures, it is estimated that it will cost CIG \$500,000.00 to carry forward this liquidation process for the period of one fiscal year. This estimate is considered to be all-inclusive.

#### V. ADVANTAGES OF PROPOSAL

In connection with the above proposal, the following advantages can be listed:

1. CIG can expect to receive directly from the German operators the detailed facts on the personnel, contacts, and plans of the organization, and thus attempt and hope to prevent a movement under ground which at some later date would have to be investigated from the outside.
2. CIG will have the opportunity to study and pick up over a period of time possible long-term intelligence projects in the spheres of German economic, cultural, and political life, as well as to open up new channels of information from Eastern Europe.
3. CIG will have at its disposal the talents and skills of the present German personnel either in the field of intelligence or evaluation of procurement.
4. CIG will have at its disposal the nucleus of a future German Intelligence Service.

#### VI. DISADVANTAGES

In connection with the above proposal, because of the very

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serious and delicate aspects involved in this Operation, it is urged that the advice of the National Intelligence Authority be obtained before undertaking the above proposal because:

1. The present German complement of Operation Rusty includes an entire crypto-analytic section with equipment, presently engaged in breaking Russian and possibly other European codes.
2. During the process of liquidation, there may occur defections or disaffections of a highly embarrassing or compromising nature.
3. CIG may receive the blame from other United States Government agencies or allied agencies for compromising situations for which it is not initially responsible.
4. It will be necessary to coordinate certain actions with existing CIG Stations and to burden these Stations, as well as the Washington desks, already understaffed, with new and particularly complex duties.
5. It may be necessary for CIG to provide for the removal of certain bodies from the American Zone of Germany to other countries of Europe or to the United States, inasmuch as there is evidence to show that certain German personnel connected with the direction of Operation Rusty having full knowledge of the Operation and all its implications might be considered unreliable.

[ ]  
 SAMUEL BOSSARD

Attachments: Annex 1 - Memo to Director, CIG, 17 October 1946,  
 Subject: Operation Rusty.  
 Annex 2 - Statement of Personnel, OPERATION RUSTY,  
 TAB A, Para A.  
 Annex 3 - Financial Statement.  
 Annex 4 - TAB R'  
 Annex 5 - TAB F  
 Annex 6 - TAB G

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ANNEX I

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17 October 1946

MEMORANDUM FOR THE DIRECTOR, CENTRAL INTELLIGENCE GROUP  
 SUBJECT: Operation Rusty

The following analysis of "Operation Rusty" is an attempt to evaluate its present usefulness and to assess its potential for longer-range strategic intelligence operations. The advantages, disadvantages and recommendations incident to the maintenance of the project are outlined.

I. DISCUSSION:

A) Present Usefulness

1. Following a somewhat protracted period of preparation, Operation Rusty commenced its actual intelligence gathering activities in April 1946 and to date has confined these almost entirely to the Russian-occupied Zone of Germany. During this period its production, from between 500 to 600 "sources", has consisted of 400-odd comparatively low-level and entire tactical reports, plus seven others which, by subject matter, can be classified as strategic. Other than in the field of unit identification, little new or particularly valuable information which cannot be produced through relatively easy and routine intelligence operations has thus far been obtained. The few strategic reports are, for the most part, broad interpretations of material which is generally available to the foreign press. There is no evidence whatsoever which indicates high-level penetration into any political or economic body in the Russian-occupied Zone.

During the same period, from the operations of the SSU Mission to Germany, a total of 647 reports on the Russian-occupied Zone were disseminated. Of this total, 268 were military, 178 economic, 152 political, 23 technical, and the remaining 26 were on miscellaneous subjects. Of this production a relatively high percentage was strategic.

An additional 220 reports were obtained through these operations on contiguous areas. More important, still, is the fact that this intelligence was procured through the use of 114 sources, and 44 known sub-sources who were directly controlled and operated by U. S. personnel.

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2. In light of the above the statements made in Operation Rusty regarding costs in the "world intelligence market" and specifically with respect to the Soviet-occupied Zone of Germany, both present and future, are disturbing and throughout. The estimated annual budget for Operation Rusty in the Russian Zone is set at \$2,500,000 per annum. This compares to a total yearly expenditure at the present rate by the SSU Mission to Germany of between approximately \$350,000 and \$400,000.

3. The importance of the counter-intelligence material produced on the U. S. Zone of Germany cannot adequately be judged here but from the available data on Operation Rusty's part in Operation Bingo, it would appear that very little legal evidence of espionage activity by the individuals concerned was furnished. Moreover, the soundness of a native German intelligence unit operating more or less independently and reporting upon the identities and activities of individuals of German and other Central European nationalities, must be considered essentially suspect.

B) Potential Future Value

1. It is considered highly undesirable that any large scale U.S.-sponsored intelligence unit be permitted to operate under even semi-autonomous conditions. Unless responsible U. S. 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 U. S. intelligence has always been the extent to which the United States as a nation is trusted and looked up to by democratic-minded people through the world. Experience has proven that the best motivation for intelligence work is ideology followed by common interest and favors. The Germans, the Russians, and their satellites, 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 dependant largely upon the last and least desirable.

3. It is an accepted fact that strategic intelligence cannot be gathered effectively unless the personnel responsible for the operations receive careful intelligence direction and briefing. Since such material is often highly classified, much of it cannot be given to non-Americans. This would apply to Operation Rusty as presently constituted and would be a limiting factor in the effectiveness of its intelligence production.

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4. Since the present production of Operation Rusty can be duplicated if not improved upon by existing U. S. operations, its unique potential value, if any, must lie in its ability to collect strategic intelligence on Eastern Europe and the USSR proper. Available evidence of the actuality of this potential is far too inadequate for evaluation but the following points are worthy of consideration:

a) GIS interrogations available here indicate that the personnel of Operation Rusty are almost exclusively concerned with tactical operations on the Eastern Front and that deep penetrations were very limited in number. Their success, however, in this respect was considered by competent GIS personnel to have been superior to that of any other German intelligence unit.

b) GIS operational units contacted by SSU since the war have almost uniformly claimed the existence of high-level chains into the USSR but so far these have never been confirmed. Without implying any dishonesty on the part of Operation Rusty's personnel, it would be quite natural for them to exaggerate somewhat the level and extent of their capabilities.

#### II. ADVANTAGES:

1. The German Intelligence Service, of which group was a part, is considered to be tactically effective.
2. Individuals concerned have had long experience in German Intelligence Service and particularly against the Russians.
3. Such archives, records, and intelligence materials in their possession are considered to be of great value.
4. The project, operating on current framework, has possibilities for further eastward penetration.
5. It entails an element of comparison and confirmation of other intelligence gathered by Special Operations.

#### III. DISADVANTAGES:

1. The taking over of this project by GIG would, in effect, be reconstituting an important function of the German Wehrmacht, and could conceivably lead to repercussions from the political aspect, if compromised. Further, it might prove embarrassing in the defense of budget, where it may be charged that

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we are subsidizing a portion of the German Intelligence Service.

2. It places dependance on our organization of a former enemy over which personnel of CIC will have only nominal control.

3. It is believed that portions of this basic organization are currently under the control of at least two other nations; i.e., [ ] and Russian.

4. The operation entails duplication to a great extent of current SO operations in that area, as we also are in a Russian-occupied Zone of Germany.

5. In general, the intelligence to be procured is too low level for the estimated cost of two and a half million dollars per annum.

#### 6. Security Aspects

a) We have information, as a result of our own counter-espionage activities, to indicate that the operation is not very secure and is generally well-known.

b) For instance, a man named [ ] who worked for Baun during the war, informed the [ ] in Berlin that the Americans were using many of his former colleagues in intelligence work.

c) We have been informed on three occasions by the [ ] that their controlled officers of the Fremde Herré Ost know of Baun's activities in the American Zone.

d) The most outstanding breach of security which has come to our attention came from the Bamberg area where the CIC has stated they have arrested over 25 individuals who claim to be working for Baun for the American espionage service, and many carried in their pockets revealing documents. Attached is a translation from German of the TOP SECRET USFET EEI (Enclosure I).

e) Besides the above security aspects, there exists no interrogation report for members of this Group. To our knowledge there has been no extensive check on members of the Group, nor have we any idea of the degree of Russian penetration by MVD.

f) Of a longer-range nature, at some time in the future these men must submit themselves to denazification boards at which time it is conceivable that the entire operation may be compromised.

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IV. RECOMMENDATIONS:

- A) That this operation as currently conceived and executed be not taken over by the Central Intelligence Group.
- B) That in the event G-2, USFET, cannot continue to maintain the project, Special Operations effect liaison with this Group in an attempt to determine and procure archives, documents, personnel files, and other intelligence materials from this Group, as well as names, locations, etc., of current agents with a view to implementing an operation after careful study of capabilities of personnel, etc.
- C) In any event, it is recommended that we do not obligate CIG to the funds and agreements with the German chief of this service.

/s/ Donald H. Galloway

/t/ DONALD H. GALLOWAY  
 Assistant Director  
 Special Operations

ENCLOSURE I (not attached to copy)

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ANNEX 3

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Expenditures over a Nine-month Period in 1946:

Agents	- 1,438,416 German Marks 110,000 Austrian Shillings \$44,150
Organization	- 719,208 German Marks 60,000 Austrian Shillings \$22,075
Staff	- 773,091 German Marks \$180
Couriers	- 17,441 German Marks 200 Austrian Shillings \$76
<b>TOTALS</b>	<b>2,948,156 German Marks 200,200 Austrian Shillings \$66,481</b>

Sum of above totals converted at the rate of 10 shillings or marks to the \$:  
\$381,305.60

Average monthly expenditure in dollars over a nine-month period in 1946:  
\$ 42,367.29

Expenditure in commodities is additional. The cost of commodities in the form of army rations for the organizational headquarters, gasoline for the 80 automobiles employed by the organization, food stuffs, cigarettes, matches, coffee, fats, etc., used operationally can only be estimated since many of these items are provided through Quarter-master services. It is estimated that in this form the U. S. Government contributes an additional \$5,000 each month to the expenses of the operation. Consequently, one can arrive at the figure of \$47,367.29 as the average monthly cost of maintaining the operation. Since as an average some 3,000 people compose the network, the per capita monthly expenditure is in the neighborhood of \$15.

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29 May 1947

TO: Chief, Operations  
 FROM: Chief, FBI  
 SUBJECT: Operation Rusty

In view of the fact that Amexes 4, 5, and 6 are mainly concerned with samples of intelligence material from Operation Rusty, it is recommended that they be not submitted to the Director, CIG.

Richard Helms

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