

DECLASSIFIED Authority **NN003027** By **MB NARA** Date **06/05/02**

94. [Critchfield] to Chief, FBM, "[Gehlen Organization

7 July 1949

OFFICIAL DISPATCH

VIA: AIR SEA POUCH

DISPATCH NO.:

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CLASSIFICATION

DATE: 7 July 1949

TO: Chief, Foreign Branch M
FROM: Chief of Station, Karlsruhe
SUBJECT: General - Administrative
Specific - [G.O.] General Policy
REF:

CENTRAL INTELLIGENCE AGENCY
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1. On 15 June 1949 I handed Dr. Schneider a policy letter (Incl. #1) indicating the current [G.O.] mission and broadly outlining what appeared to be some of the causes of present and past difficulties of the project which should be avoided in the future.
2. On 22 June 1949 a draft copy of Schneider's reply to this letter was brought to me by Schneider for discussion. (Incl.#2) This reply, with slight modification in form and style, was officially delivered to on 27 June 1949.
3. In view of the conversancy of the Washington staff with [G.O.] and its past history, I feel it superfluous to offer comment on the background of my letter or Schneider's reply.

Incl:
2 - #1 - 15 June 1949 Memorandum to Dr. Schneider from
2 - #2 - 22 June reply of Dr. Schneider with 19 attachments.

Dist:
2 - FBM w/1 Incl.#1 and 1 Incl.#2
1 - COS w/1 Incl.#1 and 1 Incl.#2
1 - POB w/1 Incl.#2 w/o annexes

approved by SB, *[initials]*

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15 June 1949

Memorandum to Dr. Schneider

1. The present financial crisis, with all the implications so clearly described by the organization leaders on 30 and 31 May, goes back, as I understand it, to the original currency reform in the summer of 1948, at which time no provision for the exchange of a vast number of Reichsmarks was made. The adjustments made by your organization to meet the problems resulting from the currency reform were beginning to show some effect when in December 1948 the value of the Deutschemerk on the free market began its drastic rise which has had catastrophic results for this organization. Since December it has become increasingly apparent to all that the financial situation was becoming steadily worse and that if support were to continue at the level of [] a drastic reduction would have to be made.
2. A reduction resulting from specific decision as to where, when and how the project would be cut should have originated with the American side. On the other hand, the German side, having given the US side adequate notice that a cut was imminent in view of the increasing value of the DM, could have taken decisive action. To a limited extent, even the suborganization leaders could have taken actions to cut down in the face of dwindling financial support.
3. On the American side there has been no participation in, and thus little understanding of, the complex operational aspects of this project. An understandable inclination on the part of nearly all representatives of American agencies, each with a particular interest in the production of this project, to constantly encourage the increase in the level of production in the field of his particular interest has been a second factor contributing to expansion of the operation within the limits of what the black market would bear. Finally, the period of uncertainty since November 1948 when it first became apparent that a change in US sponsorship was a definite possibility has been marked by the unwillingness of any US official to take decisive action to alleviate the increasingly chaotic financial situation. The record is clear that no decisive action on the US side was taken.
4. On the German side the impetus to continue operations at a maximum level by straining all resources procurable by manipulating goods and currencies on the black market can be attributed primarily to the commendable desire on the part of the members of your organizations to increase the quality and

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quantity of the final product--produced intelligence on the USSR. To a limited extent it also appears that this expansion was an unplanned and uncontrolled growth based on the receipt of EEIs from various US agencies. EEIs should not, in my opinion, have been considered the basis for expansion or re-organization since the research type of individual who originates EEIs is completely uninformed on either the operational capabilities or the financial limitations of the organization to whom he directs his EEIs. Trends discernable from the EEIs could, on the other hand, have been a clear indication to both the German and American sides that discussions as to where, when and how cuts or expansions should be initiated were in order. Decisions thus reached would probably have been consistent with the capabilities of the organization and its available means--financial and otherwise.

5. In the final analysis, the historical background of the situation is not immediately relevant to the problem at hand--that is, finding a solution to our present problems and establishing your project under its new sponsorship on a firm operational and financial basis. I have been informed by my headquarters that the present sum of [] monthly will continue to be the level of support. The sum of [] in hard currency will be provided on or before 1 July for the first quarter of the new fiscal year. This, to the best of my knowledge, represents the total financial support that we shall receive during this period, and I consider it quite unsound that I should give you encouragement to continue the present scope in size and activities of the organization by creating any false hope that an increase in financial support will be forthcoming. To do so would merely be a continuation of the unsound policy that has brought about the present critical situation. Therefore, I urge you to make every effort to salvage the best elements of your project and drop personnel under the most desirable circumstances possible within your admittedly inadequate financial means.

6. My original recommendation in November that the financing of this project be modified to a system under which the overhead and Sovzone operation would be on an annual or semi-annual planned budgetary basis, and that all operations, strategic and otherwise, in the satellites and other areas bordering on the western USSR be placed on a project basis, was without respect or relationship to the figure []. At that time I visualized a situation which would, for example, make it possible to determine that some such amount as [] could be budgeted for monthly overhead expenses; [] budgeted for Sovzone operation; and that, utilizing the [] to cover

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our period of change-over, we put other operations on a project basis, each subject to approval in Washington and subject to continuing review upon which the financial support of the specific operation could be individually and periodically determined. The financial situation which has developed since that time tends to throw a new light on the entire financial situation, and we now find ourselves in a situation where your supporting funds are worth less than 1/3 of their December value with the result that your Sovzone collection, which has in the past utilized approximately 60% of your funds would now - even if substantially reduced - still utilize the entire [] monthly.

7. You are well aware of my conviction that our mutual interests in operations to the East from Germany can best be served by such operations being described in detail in project form for presentation to Washington and consideration on the merits of each individual operation. I wish to ensure, however, that no misconception arises from my recommendation that operations outside of Germany be put on the project basis. The present level of support is [] and funds for these projects must come from this sum. It is recognized that the limited funds will be reflected in the fact that various projects will be shown at various stages of development and productively dependent on the time they have been going, the skill of the persons controlling and participating in the operation and the funds that have been made available to support the operation. Washington will be able to consider all of these factors in determining the immediate as well as the long range potentialities of each operation, and we will be assured that the Washington decision made in any case results from a detailed consideration of the operation on its own merits and not as a result of categorical decisions.

8. I fully appreciate the difficult personal situation which confronts you during this period of liquidation of large elements of the project which you have developed through great effort during the past few years. It is recognized that the reputation of the leadership of the project will be severely damaged and that the rebuilding of confidence and a feeling of security in the organization will be one of the major problems confronting you in the future.

9. From several fragmentary instructions I am now able to form rather clearly defined priorities. These are arrived at by the concurrent consideration of our definite commitment to the US Armed Forces in Europe to continue to give highest priority to tactical collection of interest to the US Commanding General in Europe, our overall national intelligence needs, our future stake in the intelligence field in Europe and the financial limitations currently imposed upon the support of the

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project. Most of these I have previously discussed with you or your representative and all are reduced to writing at this time for your continuing guidance:

- a. Intelligence on the strength, disposition and capabilities of the Soviet Forces in Sovzone Germany, Poland and the Western USSR remains the top priority. All efforts will be made to maintain the production level of such intelligence.
- b. Eliminate operations in Yugoslavia, Hungary and Bulgaria unless, in the case of the two latter, an early extension of an individual operation into the USSR appears likely.
- c. Eliminate Sovzone Austria operations. USFA has clearly indicated that while your reports are of high caliber and valuable for confirmation purposes, the coverage by USFA agencies of the Soviet Central Group of Forces is adequate.
- d. Keep the Signal Intelligence operation at its present level; the Air Forces consider this a highly valuable operation and their continuing logistical support has been assured.
- e. Delay taking action on reduction of the PW interrogation project. We are currently negotiating with the Air Forces in the hope of obtaining support of the project from them. No priority for this project has been received from Washington.
- f. Operations in Rumania should be continued with emphasis on OB and extension of lines into Southwestern USSR.
- g. The strategic planning that has been done by 100 should be examined and the most concrete and promising operations be reduced to detailed projects at the earliest opportunity. Since these operations in most cases go through countries where we have diplomatic representations and intelligence connections, these projects will have to be presented in more detail than, for example, those into Poland or Rumania.
- h. A detailed report of all personnel and activities in friendly and neutral countries is desired. Upon receipt of this data on each individual country we will examine the facts in light of possible utilization of our communication facilities and contacts to economize and at

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the same time efficiently accomplish the desired purpose.

1. A well rounded intelligence organization, capable of independently mounting and supporting agent operations remains our basic concept of your organization.

1. For various reasons it is not contemplated that it will be possible to run any operations into the Baltic area through the Scandinavian Countries. For this reason, it is suggested that we take steps to liquidate any commitments that exist in these areas (Norway, Sweden and Finland). If you can give me the details of present commitments in those areas it is possible that the individuals concerned may, in some instances, be integrated with activities already in progress.

10. In future, I shall make an effort to keep you advised at the earliest practical time and in writing of all matters pertaining to financial support, since I feel very strongly that our relationship in the future must not be characterized by the misconstrued and misinterpreted utterances of persons in official positions on either the German or the American side as to the extent of financial and other types of support which can be definitely expected in the foreseeable future.

11. If there is anything in this or future letters which is not clear or with which you cannot in good conscience agree, I would appreciate it if you would immediately and candidly bring the matter to my attention.

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Incl. # 2

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34

~~TO GERMANY ONLY~~ June 1949

MEMORANDUM TO: Mr.

I beg to make the following comment on your Memorandum dated 15 June 1949:

- I. At the beginning I should like to stress as the most important point that, at this juncture, it is decisive for the future of this project and its activities to overcome, by a common effort of the US and German side, the crisis which now faces this project and its work. It seems to be of little avail to pose the question of who is to be blamed for this development. When I, nevertheless, set forth my view on this problem touched upon in par 2 - 4, I am motivated by par 11 of your memorandum which expressly invites me to do so.

In general I shall limit my comments to generalizations, but am attaching extracts from relevant memoranda which support these statements (see Inclosure 1 a - n).

Thus, with a view toward clarifying my position with respect to the specific matters raised in your paras 2-4, I feel it necessary reemphasize the following factual aspects of the development of this project during the past three years and particularly the period since August 1948:

- (a) All principal changes in the organizational structure and redirection of collecting activities of the German organization have been discussed with and received the approval of the US Commander.
- (b) From the time of the currency conversion to the present, it has been quite clear to me that we were becoming increasingly involved in a difficult financial situation which could well prove catastrophic to the project if the financial support were not increased. In the face of constant assurances from the appropriate US officials, including specifically General HALL, that funds would be increased and cuts should not be made, I delayed taking the necessary action to reduce the operation.

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(c) It is true to an extent that EELs plus the verbally given opinions of the highest authorities on the US side have exerted a strong influence on the line of development which this project has taken. This was necessary only because of the complete absence of a directive giving collection priorities prior to the late autumn of 1948. The disparity between the support and the EELs and the resulting obvious need for clarification have, on numerous occasions, been cited in memoranda to the US side. (See Inclosure 3 a - d). In the absence of such direction we attempted to interpret the EELs and develop a collection program consistent with

- (1) Our broad mission of conducting intelligence operations against the USSR;
- (2) The highest priority for tactical collection as consistently stated by all US officials;
- (3) The indicated intelligence needs of EUCOM and the Department of the Army as frequently explained by recognized persons of authority from the Intelligence Divisions of the respective headquarters; and
- (4) The financial and material support available.

In this sense and from my viewpoint as the responsible head of the German organization, the phrase "unplanned and uncontrolled growth" presents an inaccurate picture. I do not feel qualified or that it is appropriate to comment definitively on the planning and control as applied to the US side of this operation.

(d) Since the summer of 1948, there has been a continual but, in retrospect, inadequate reduction program in progress. Occasionally at both the field and staff level it has been necessary to employ new individuals to meet specialized current needs. These have not, however, been sufficient in number to, in any measure, negate our reduction program.

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- (e) The lack of US participation in the operational activities of this project has been the underlying cause of some of our most difficult problems. As early as 1946, I urged General SIBERT to ensure the assignment of qualified US intelligence officers with operational experience. The failure of the Army to solve this problem was one of the main factors behind my written statement to General HALL on 5 February 1949 that continuation of the project under EUCOM direction was impossible (see Inclosure 2 a and b).
- (f) The origin of EEIs with "various US agencies" appears to be essentially a US matter since EEIs coming to us are normally identified only as coming from EUCOM. Some independent direction from USAFE has effected the PW interrogation project and the signal monitoring program.
- (g) A theoretical division of the monthly allocation of funds [] among the 3,000 individuals of the project would provide each individual with the sum of approximately [] per month. From this fund he would live and support his family, pay informants, border guards, informants and cut-outs not included in our organic group of 3,000 and defray part of his overhead expenses, including operational supplies and fuels and lubricants for his operational vehicle, if his particular duty necessitated the availability of a vehicle. Thus it is clearly evident that the organization with its demonstrated productivity could only have achieved its goal by directly or indirectly capitalizing on the desperate economic plight of the European peoples and the resulting black market. With the exception of the few expected cases of individual opportunism, however, increasing the intelligence production on the USSR has been the only motivation behind this practice which, I am sure, has been characteristic of all US and Western European IS activities in Europe, particularly Germany, during the postwar period. Thus, I do not consider valid the inference that the possibilities of black market financing was a decisive factor in planning the scope of our activities to a greater degree than it has influenced the planning of any other intelligence organization engaged in the agent type operation during the same period.

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- (h) To this organization, the fight against an expansion of Communism conducted with the means of an Intelligence Service and in cooperation with the United States is not merely a "job", but a mission to be pursued with all the means within the framework of our possibilities at a spiritual level. Of course, we have always tried to achieve a maximum of results with the allocated means. Taking into consideration that:
- (1) During the current fiscal year, an average of 8,000 reports was received per month on the basis of an allocation of [] i.e., slightly more than [] for each report inclusive all incidental expenses; or
 - (2) With a total strength of approximately 3,000, an average of about [] including all extras, is available per month for each member of the organization;
 - (3) As a comparison, these funds amount to about 1/6 of the sum spent monthly on the maintenance of the Bavarian Rural Police with the strength of 7,000 men;
 - (4) In terms of dollars, this organization - according to my estimate - required an expenditure which amounts perhaps only to half of that needed for the upkeep of one US Army regiment. The expenditure for such a regiment may bear fruit in a later war, when this has been won. However, the costs required for the maintenance of an efficient Intelligence Service bear a substantial profit already prior to such a war, inasmuch as such an Intelligence Service may be a decisive factor in the efforts to prevent a war altogether or to postpone it until a moment when the European situation has been consolidated to the advantage of the Western Powers.
 - (5) We have every reason to point out that our organization is probably operating cheaper than any other Intelligence organization of a similar type.

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94. (Continued)

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TO GERMANY ONLY~~Summary:

I am quite in agreement with your feeling that there appears little to be gained at this time by attempting to fix the relative responsibility for the failure to take the necessary actions to have avoided the present crisis. In retrospect I criticize myself primarily for not having taken decisive actions when the necessity for such actions was clearly indicated and no positive action from the US side was forthcoming. This error in judgment on my part came from placing too much confidence on the words of high ranking US officers. Among these officers was General HALL who, as G-2 of EUCOM, was fully responsible for the conduct of our operations and who, late in 1948, promised in a rather concrete form additional [] for the current fiscal year. Fully informed about the serious situation by the letter from 34 of 5 February 1949, he again avoided a decision on a reduction of our organization in a discussion held late in February, by promising his help to overcome our plight. It must, therefore, be stated that the steadily rising scepticism on our side was again and again disarmed by high ranking US officers, whose authority could hardly be doubted. This confidence was supported by the reflection on the German side that the considerable reduction of an organization like ours, which was constantly credited with the obtainment of 70% of the information originating from the European Theater, could hardly be in the interest of the United States.

II. The Present Situation

The present situation is characterized by the discrepancy between the available funds and the intelligence requests listed in par 9.

In Detail:

To par 7: The sentence "The present level of support is [] and funds for these projects (operations outside Germany) must come from this sum" constituted a clear decision in the sense of par 1 of our memorandum dated 17 May 1949. In accordance with the facts mentioned in this paragraph, this decision would merely theoretically necessitate the following cuts in our budget submitted on 3 May 1949:

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Overhead	reduced to about 49%
Intelligence activities in Sovzone Germany	" " " 20%
Operations outside of Germany	" " " 42%

Since this decision had not been submitted to us in such a clear-cut form prior to the discussions about reduction held with the individual suborganization leaders, these discussions were conducted on an uncertain, if not wrong basis. Only the leaders of Suborganizations 120 and 22, in submitting their proposals for a reduction, have included the costs for operations outside Germany into the allocated fixed sum. The corresponding proposals of all other suborganization leaders were determined by the expectation that projects for operations outside Germany submitted by them would be forwarded for consideration and possible financing outside of the budgetted allocation of [] 34 and 7 are now faced with the unpleasant situation either to hold renewed individual discussions with the suborganization leaders under these essentially changed conditions with a view to effect far more drastic reductions, or to take these decisions without any prior consultation with the leaders in the field due to the pressure of time.

To par 9: Some entirely new viewpoints become discernible, of which only that mentioned in par c ("Eliminate Sovzone Austria operations") offers the possibility to decrease the operational expenses. However, this reduction is only slight, amounting to about [] Moreover, par b admits some other minor savings (about []).

Apart from that, the purport of this paragraph will have a decisive influence on the new resolution mentioned as indispensable measure at the end of the comment on par 7. In reflecting upon the extent to which this has to be done, a considerable discrepancy with the decisive sentence of par 7 becomes visible at once. This sentence may be quoted here again: "The present level of support is [] and funds for these projects must come from this sum".

The demands incorporated in par 9 a, d, e, f, i and the partial demand in par 9 b lead to the following rough estimate of costs, based on an dollar exchange rate of 1:6:

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By **MBNARA** Date **06/05/02** GER

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- a. Total allocation according to the budget of 3 May 49:
 - To be deducted therefrom for
 - Sovzone Austria
 - PW interrogation
 - b. Total allocation for Yugoslavia, Hungary, Bulgaria according to the budget of 3 May 49:
 - To be deducted therefrom for
 - Yugoslavia (total)
 - Hungary (50%)
 - Bulgaria (50%)
 - d. Costs for Signal Intelligence operation at its present level were included in the overhead expenses of the budget of 3 May 49. They must be inserted separately with:
 - e. PW interrogation:
 - f. Total allocation for Rumania according to the budget of 3 May 49: Deductions are impossible in view of the requested extension of lines into SW USSR, therefore:
 - i. For the maintenance of a well rounded intelligence organization, the retention of essential overhead personnel, i.e., at least 2/3 of the present level, is considered necessary. Overhead expenses according to the budget of 3 May 49: Minus costs for Signal Intelligence:
- 2/3 of this sum amount to:
-
- Total: a + b + d + e + f + i i.e. approximately

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When considering the substance of par 9 with regard to its flexibility, it appears that only par 9 a: "All efforts will be made to maintain the production level" offers a possibility to change the above calculation.

Thus, the following picture would present itself: $b + d + e + f + i$ add up to a total of [] i.e., approximately []. This would leave only [] for operations in the Sovzone Germany, so that these operations could be maintained only at 10,5% of the present level.

On the other hand, if the realization of the theoretical consideration for a reduction of overhead personnel as contained in par 1 of our memorandum of 17 May 1949 should be envisaged and combined with the considerations underlying the above estimate, this would result in the following picture:

$b + d + e + f$
i instead of $2/3$ only $1/2$

i.e., approximately

[]
[]

This would leave [] for operations in the Sovzone Germany, i.e., these operations could only be maintained at 22,5% of the previous level.

Only after performing these rather forcible calculations, the full picture of par 1 of the memorandum of 17 May 1949 becomes discernible, the item "long range tactical and strategical Intelligence" of this memorandum corresponding to items $b + d + e + f$ of the above representation.

It is hardly possible to prove more clearly the discrepancy between par 7 and par 9 of the memorandum which is being commented upon here. The elimination of this discrepancy is a task insoluble for us.

The above comment on par 7 and par 9 is based on a merely theoretically calculating foundation. In practice it must not be forgotten that the organization in its present structure has grown organically, and that a so far-reaching procentual reduction represents an unorganic intervention, terminating the vitality of all individual parts.

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III. Summarizing Comment

I wish to stress once more that in accordance with our political conception it seems imperative that the present crisis, with which our organization is faced, be overcome by a common effort of the American and German elements. Therefore, the following is considered necessary:

- (a) That all operations outside of Germany be put on a project basis; that a decision on the submitted projects, including PW interrogation, be reached within the shortest possible time; and that the granted sums be placed at our disposal without delay. This applies particularly to those projects which have already been initiated and are bearing results.
- (b) To reach a decision on the problem whether a so drastic reduction of our tactical intelligence activities in the Soviet Zone of Germany should actually be effected in view of the desired preservation of a well rounded organization. If this should be answered in the negative, the fixed allocation of [] for overhead and tactical intelligence activities in the Sovzone Germany would have to be increased accordingly.

I am completely aware of the fact that a drastic reduction of the organization is unavoidable. It has already been initiated. However, if things really are as stated in par 7 of your memorandum and if no speedy and positive decision should be taken on par (a) and (b) of my summarizing comment, this reduction will take such forms that we are really afraid it might lead to a disintegration of this project from within. To be sincere, I must confess that the financial plight and the prevailing uncertainty as to the scope and character of its future missions may well have shaken the confidence of our co-workers in the US-German leadership of this project to such a degree that this may be the beginning of an unavoidable disintegration.

Should it be found out in the course of the next weeks that, due to the initiated drastic reduction of personnel caused by a prolonged financial crisis, the confidence which is indispensable to the continuation of our work has been lost irreparably, the only way out would be to dissolve the organization and to rebuild it in a different shape. The same applies if the condition stipulated in par 7 of your memorandum - allocation of [] for the solution of all our tasks - will be maintained.

Schneider

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Inclosure 1 a

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34 a

4 July 1948

MEMORANDUM TO: 23

It could be gathered from many reports and discussions that practically all the IDA's are quite worried at present about the question of funds for the July budget. The funds in DMark which have been allotted so far as an intermediate aid are not sufficient to carry on the work at the present scale, especially for the IDA's, who up to now have only received a relatively small amount in DMark.

The funds in Dollar, already paid out for July up to the amount of the old Dollar allocations, can only be used at a very unfavorable rate of exchange. As the fixed costs of the organizations cannot be reduced by a considerable margin, the prices having remained the same, there will really remain only small amounts for the actual purposes of the organization.

It has, therefore, become necessary to find as soon as possible an intermediate financial solution for July and inform at once the organizations hereof, so that they have a foundation to build up their work.

As the development of the economic situation and the valuation of the new currency cannot yet be ascertained, 23 should put an amount at the disposal of 34 as soon as possible, enabling the latter to help the organization in overcoming their financial difficulties in July.

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By MBNARA Date 06/05/02 GER

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Inclosure 1 b

EXCERPT COPY.

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8 August 1949 - 487

TO: 23

SUBJECT: Justification of Budget

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The expenses for the organization have not gone down after the money conversion, the prices for vital goods having remained the same on an average. On the other hand, the value of the Dollar in relation to the DMark has gone down considerably, just as the price for cigarettes is now only a fraction to the former price. To give an example: Before the currency reform, the price of one carton of cigarettes was 800.- RM. With this amount the fares for railway journeys of 10,000 km could be covered. Today the carton of cigarettes will bring only 35.- DM, an amount which does not cover 600 km railway fare. This goes to illustrate that after the currency reform not the same results can be obtained with the same funds as before the money conversion.

The necessary funds are being estimated as follows, taking the conditions after the money reform into consideration:

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9a. (Continued)

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Inclosure 1.c

EXCERPT COPY.

11 September 1948

Minutes of the First Meeting
of the 7821 Composite Group Budget Board.

.....
Mr. HERDAHL pointed out the facts which would result from the allotment of only [] per month. We would have to cut the tactical intelligence from 1/3 to 1/2 and the strategical intelligence from 1/2 to 2/3. The strategical intelligence is in worse shape because the tactical intelligence can completely exchange their currency, while the strategical intelligence can only partly exchange theirs. The inevitable result will be a considerable decrease in the amount of reports received from the field. The number of reports received before the first reduction amounted to 8,000 reports, now we receive only 6,000. This shows a decrease of 2,000 reports. There will be another decrease in case more cuts are necessary due to a further reduction of money (possibly to about []

For the last year, the organization dissolved all the unproductive nets. At present we have only good nets. If we have to cut down we will lose valuable personnel. The people concerned will then be lost forever.

Col. HERRY asked for the proportions of how to cut the tactical or the strategical intelligence. Mr. HERDAHL answered that the decision of where to cut is not up to the German organization. We should have a priority of EET's from the American side. Col. HERRY promised to get this priority as fast as he can. Some time ago, Major STRONG had already promised to send a priority list, but nothing arrived so far.

Capt. SWEARINGEN stated that Maj. STRONG and Col. MEYER had assured him that we would possibly get a substantial increase very soon. He suggested not to make cuts right now, but to wait for approximately two months before taking such measures, if then.

Three possibilities were discussed how to cut nets:

- (1) To keep the net alive with small means, the net working only to a small extent;
- (2) To cut the net off completely and to have other nets active;
- (3) In case we can wait with the payment of our debts, we can continue to keep all nets active, adding from the reserve and waiting until the final word comes from higher headquarters.

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Col. BERRY agreed that we should wait until this has been talked over with EUCOM.

Mr. HERDAHL emphasized that it would be a serious step to make more cuts and that, in case we are forced to do it, EUCOM and Washington should be informed. He mentioned a few possibilities of how to save some money, but these are in no comparison to the total amounts of the discussion.

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Inclosure 1 d

13 September 1948MEMORANDUM TO: Col. SCHOW
THRU : Lt. Col. BERRY

.....

Already before the introduction of the currency reform, the financial means available to this project were too limited in relation to the required information and the extensive activities of this project. That it has been possible, on the whole, to furnish the required information in spite of the above disproportion is certainly due to the fact that almost all co-workers of this project have been motivated by idealistic considerations, which has made our project by far the most inexpensive intelligence service of the world.

The appropriation of [] per month after the introduction of the currency reform, in its actual effect, represents a considerable reduction of a budget which itself had not been adequate.

This reduction has led to a temporary suspension of the planning in the field of strategic intelligence activities, which had been necessitated by the received intelligence requests. Furthermore, due to the shortage of means, also the tactical IS activities had, for the time being, to be reduced by 30 - 50%. After a consolidation period of about one year, during which all but first-class connections had been dropped, the above limitation of our tactical IS activities is on the point of affecting the substance of our most reliable connections. In this connection, it must be pointed out that a severed reliable connection cannot be resumed at will.

I feel obliged emphatically to point out this fact and the certain decline in the number and quality of the information which it will be possible to obtain.

But there is still another factor which has an unfavorable effect on the activities of this project.

Prior to the beginning of the new fiscal year, the German chief of this project submitted to the GO a proposal for a budget, which was adjusted to the received intelligence requests. Thereupon, prospects were held out to me according to which I could expect an increase of our financial means. But instead of this, I was informed on 11 September 1948 that, effective immediately, this project had to reckon with an even smaller sum than [] per month. This reduction was explained by the fact that henceforth the rations, PX articles, POL books - contrary to the former usage - would have to be included in the [] allocation and that, furthermore, additional payments will have to be made to cover a debt of about [] This constitutes

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94 (Continued)

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such a considerable reduction of our financial means, which have been inadequate before, that the immediate reduction of about one third of the activities of this project must be decreed.

If there are imperative reasons for such a reduction of our financial means, it is not up to me to argue about it.

Valuable results may be secured with a considerably reduced project on condition of a corresponding limitation of the requested intelligence, it is true. However, it is absolutely necessary that we should be informed, at least 6 months in advance, what financial means will be available to this project. Only such an information would guarantee:

- (a) Accurate financial planning by subordinated organization leaders;
- (b) A prior and timely planning of the activities of this project;
- (c) The elimination of human hardships and security threats to the operation. A discharge without any previous notice requires a cooling-off period of about three months for the effected individuals, and causes additional non-productive costs to the operation during this period.

I should appreciate very much if I were informed, in due course, about the financial means which this project can definitely expect for this fiscal year.

In submitting this memorandum, I believe to serve simultaneously the interests of the designated Commanding Officer of this project.

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Inclousure 1 e

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29 September 1948

MEMORANDUM TO: 23

.....
A statement of expenses for September 1948 shows that the amount of [] has already been exceeded without taking the expenses for QM items and other supply into consideration. With a heavy heart the leader of the organization had to make the decision to dissolve the reserve fund created for the emergency case and to take the balance from this fund in order to still prevent for this month touching upon the very substance of most reliable and excellent connections.

As is to be seen from the statement of expenses for individual projects, attached to the budget estimate, there was only a fraction of the actually required funds at the disposal of the organization to comply with the various requests. If the organization was, nevertheless, successful in complying with most of the requests, this was done with the aid of various financial transactions and making use of the personal credit of many members of the organization. In this manner the organization succeeded in maneuvering itself over the first three months of the new budget year. But the methods hinted at are undesirable ones and cannot be used permanently. Also the money lent has to be paid back at one time or another.

The budget estimate submitted by the organization before the beginning of the fiscal year 1948/49 had been made in accordance with the requests for information received by the organization. In order to direct the work of the organization properly and give the orders for intelligence work according to plans, it is absolutely necessary to know definitely which financial allowance the organization will be able to count on finally for the current budget year.

Should it not be possible to allot the funds necessary to fulfill the tasks set to the organization, then the question arises which steps will have to be taken to bring the tasks of the organization into accord with its funds. For one thing a priority for the individual information requests could be fixed, whereby all those requests should be cancelled for which there would not be enough money. The requests from the American side which could not yet be started due to the lack of money would have to be finally dropped. They represent mainly those requests for strategic intelligence going into the interior of Russia and into the back parts of Poland and Czechoslovakia. The decisive importance of just those requests, especially for target information, is not underestimated. But the expenses for strategical intelligence work are so excessively high - for instance, one single commitment to Rumania costs at least [] that this work could only be done by dropping an important part of the present information work. It is for this reason that up to now the request to build up an agent radio net and long range direction-finding could not be complied with.

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As all connections which were not first-class ones have already been dropped during the course of the fiscal year 1947/48, savings can only be made by touching on the substance of excellent connections. It may be pointed out too that these connections cannot be picked up again ad lib. The capital invested in these connections is, therefore, definitely lost. It should also not be overlooked that even a sudden dropping needs at least three months time as a cooling-off period for the respective parts and in consequence causes further expenses for this period.

The present work could be cut down in this respect that all expensive requests are being dropped, e.g., especially the largest part of the strategic intelligence. But one could also make less exact the picture of the situation for the areas near the border (Soviet Zone, Satellite States), which at present is composed like mosaic work of innumerable individual reports, by procuring only a few individual reports and then drawing conclusions for the whole situation from these few reports. That thereby the present exacting methods of work would be dropped and that the results of the work would partly be left to chance, one would have to take knowingly into the bargain. Certainly the expenses could thereby be reduced considerably, as one commitment into the Soviet Zone after the money conversion is costing nevertheless almost 3,000 DMarks.

In summarizing from the proceeding pages one can state that a decision regarding the following points will be necessary:

- (1) To fix definitely the funds at disposal for the fiscal year 1948/49 as soon as possible.
- (2) To give a priority list to the American requests.
- (3) To give a decision regarding a possible touching of the substance and the dropping of most valuable connections.
- (4) To fix the budget for 1949/50 until January 1949 at the latest, so that a timely planning at long sight is made possible at all.

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Inclosure 1 f

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34 a

8 October 1948

Note

Regarding Discussion 34a with Lt. Col. BERRY on 8 October 1948.

- (1) Col. BERRY firstly confirms that on the evening of 7 October General HALL said to 34a: Do not reduce under any circumstances. Keep the organization in its present state of efficiency, so that it can go on fulfilling its present tasks. I cannot make any promises but I am convinced that you will get considerably larger funds. This is the impression I have brought along from the States.
- (2) Col. BERRY stated that General LEMAY had sent word through Capt. HUTCHINS that he not at all agreed to any reduction in our activities nor to the proposed priorities. With those latter the strategical demands of the Air Force would be dealt with insufficiently. LEMAY would do everything in his power to create the possibilities that his information demands would also be complied with. He would get in touch with General CLAY and would also get busy along those lines when going to the States now.

In summarizing, Col. BERRY said: "Therefore no reduction!" If necessary, take money from the reserve funds. He would do everything he could to fill up the reserve funds again.

1015 hours: This information handed on to Mr. HORN and Mr. WOLLMANN. Both agree that Mr. SCHACK should also be informed.

*) Deputy CO

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Inclosure 1 g

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31 December 1948

MEMORANDUM TO: 23

SUBJECT E. Budget

.....

6. According to the kind of work, each organizational decision has its effect not before three months. Therefore, it has to be decided immediately whether 50% of the organization in the field must be cut off. This would mean that this reduction of the organization would become effective on about 1 April 1949, so that it would be possible to balance the budget from 1 April 1949, not before that date. This decision will highly influence the efficiency of the organization for a long time. Therefore, I propose to take up this decision with higher headquarters. It must be stressed that dropped parts of the organization cannot be reactivated and that several months would be required to rebuild the organization to its present size and efficiency.

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34 a

6 January 1949

Note

Regarding the Conference 23 - 34 - 34a and later on 75 on 3 Jan 49
at 1630 Hours.

SUBJECT: Financial Matters

.....

34 points out that in this case orders for reduction of activities should be given at once.

23 decides then that this should not be done at the moment and that a final decision should be postponed until he returns from his journey at the end of January. Up to that time it should also be known what the result of General HALL's trip to the States had been, e.g., if we could expect more money.

23 believes that he could take the responsibility to postpone the decision, especially as he felt certain that we would actually get more money.

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Inclosure 1 i

34 a

12 January 1949

Note

Regarding the Conference 23 - 34a - Major LEFFERS - Capt. WALDMAN
on 7 January 1949 at 2000 Hours.

.....
 23 points out that the organization has saved in any case payment for QM items for January, that now only payment for QM items for February would become due and that then a reduction of activities would become necessary in any case unless the allotted funds would be raised.

34a emphasizes that any reduction of activities would become effective only three months after beginning so that meanwhile we would get into financial difficulties.

23 then states that he had planned, in case expected additional funds would fail to arrive, to stop the total activity for the Air Force, the expenses of which are estimated to amount to about 25% of the total expenses of the organization. Should he talk at the right moment of such a step this would have such an effect that the Air Force would be forced to give aid at once. The present aid given by the Air Force consisted only of 7,000 gallons of fuel - about \$64.--.

It is agreed that there is nothing else to do at present but to keep steady nerves though the present situation is an unpleasant one, especially for 23 who after all is finally responsible.

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Inclosure I k

24 January 1949

Dear Colonel Philp,

The great anxiety I feel toward the continuation of our work makes me write these lines to you. The great confidence we all have in you, who has been connected with this work from its very beginning, encourages me to use free and open words in voicing this uneasiness.

From the beginning, I resolved to try my very best to win the most qualified German capacities for unre-served cooperation with the USA. In doing so, I was motivated by the following convictions:

- (1) A show-down between East and West is unavoidable in the long run.
- (2) Every German is under the obligation of contributing his share, so that Germany is in a position to ful-fill the missions incumbent on her for the common defense of Western Christian Civilization on the side of the Western Powers.
- (3) For this reason, everything should be done to strengthen the leading power of this constellation, i.e., the USA, as far as this was compatible with our national conscience and our personal honor.
- (4) The epoch of the conventional national states has been superseded by greater conceptions, such as the Union of Western European States and the community of the Western oriented nations. This development does not exclude the conservation of our national characteristics within the framework of a West Ger-man federate state.
- (5) The above mentioned development will necessarily make the USA the best and most objective friend of Germany regarding a reasonable political and economic development.

Although you are already familiar with these arguments, I thought it advisable to mention them again in order to stress my attitude with regard to our work.

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In the course of this work, I had the privilege of making the acquaintance, both in the USA and here, of eminent representatives of your country. I cherish the greatest gratitude to them all for the magnanimous understanding, which they have shown us in the course of our constructive work.

Since we have always tried to make the best of the existing possibilities, leading US circles may not have fully realized the extraordinary difficulties, which we have had to face in carrying out our activities. It is only in this way that I can interpret the lack of support which repeatedly endangered the continuation of our work, although it should not have been so difficult to grant us this support. May I mention the following examples:

- (1) About mid-August 1946, General SIBERT promised to assign an adequate number of US officers experienced in IS matters to this project. However, until August 1947, only one such officer, i.e., Capt. WALDMAN, was available to the Commanding Officer. Only after this time, some officers have been successively assigned. Of these, in my opinion, Major BAIRD and Lt. KESTLINGER were entirely unqualified in the IS field. Capt. SWEARINGEN is unqualified and Major LEFFERS has only limited qualifications for the work done by them here. It need not be particularly mentioned that Lt. RICHARDSON, due to his previous assignment as Public Safety Officer, has speedily familiarized himself with his work, and that Major WALKER, because of his experiences in OSS, is a very great help to us.

In saying this, I may be countered to the effect that I am in no position to judge the US officers assigned to this project. However, I trust, you will grant me such a privilege with regard to the 26-year period of my military service and the many years of experience I have had in the special IS field. The employment of well qualified US officers, experienced in the field of IS matters, is of decisive practical and psychological importance to us. The utilization of unqualified officers, on the other hand, cannot but lead to an undermining of confidence of the German co-workers, because such a personnel policy would suggest the conclusion that the higher headquarters do not fully appreciate the importance and special requirements of the IS. I would, furthermore, like to point

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out that the assignment of such qualified officers, who have a fair command of the German language, is of the greatest importance for our entire work. Everybody who is sufficiently familiar with the functioning of an IS knows that personal contact and confidence means everything in this field, and that for this reason, it is not feasible regularly to change officers employed in it just as one changes one's shirt. Therefore, the intended transfer of Capt. WALDMAN, Major WALKER, and possibly Lt. RICHARDSON, the only experienced officers of this unit, would have very detrimental effects on the efficiency of this organization and would lead to the conclusion that the superior headquarters are not sufficiently familiar with the particular problems of our work. By way of conclusion I must, therefore, state that also in this point we have not been given the required support, although this would have been possible.

- (2) During the period that Col. LIEBEL was CO of this project, the situation prevailing here became untenable. The selection of such an officer, who obviously lacked every understanding of IS matters, has adversely affected the American authority within our entire organization. This was partially compensated only by the fact that our organization had previously been given the chance of making the acquaintance of men like Mr. Sam BOSSART, who, on behalf of CIA, visited the various field agencies of this organization for several weeks and who, through his extraordinary experiences in the IS field, left a permanent impression. Also in the case of Col. LIEBEL, we succeeded only after many months in bringing about a decision with regard to a change of the CO. All the accompanying circumstances were very regrettable. The fact that Lt. KESTLINGER got off with a small fine for his embezzlement of funds, in order to protect Col. LIEBEL, whose most diversified activities did not remain unknown to this organization, has not enhanced the confidence in the American sense of justice, which has also suffered from the way in which various political trials were conducted. Rightly or wrongly, the apparently intended transfer of the most qualified US officers, such as Capt. WALDMAN, Major WALKER, and possibly Lt. RICHARDSON is viewed in connection with the LIEBEL affair.

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On this occasion, I would like to tell you quite openly that my own confidence in the future of our common cause was so gravely shaken by all these events, that I would not have continued in this position if you, with whom we have been acquainted since the period immediately after the war and from the very beginning of our work, had not become the CO of this unit.

- (3) The conduct of IS activities is a matter of long-range planning. This includes long-range planning also in the field of finances. I am completely aware that such financial planning, due to US budget problems, has its special difficulties. In spite of all our urging, which was done on various occasions in due course and which is on record, we have not met with the possible support in this field. For instance, a considerable time prior to the introduction of the currency reform, we drew attention to the difficulties to be expected for our work, and actually got into a grave plight immediately after this currency reform. If even the French and British IS, which are supported by countries of less financial means, succeeded in making the new currency available at the lowest levels on the very day the currency reform went into effect, it is difficult to understand why such a settlement should not have been possible to the US IS.

The currency reform has resulted in an overall picture of the financial situation of this organization, which requires an immediate decision either drastically to cut this organization and the activities conducted by it or to allocate the means required for the continuation of this work in its previous extent. I have submitted the required records in my Memorandum dated 31 December 1948. In the two conferences, which were also attended by some gentlemen from Washington, we were told that our activities should continue as before, since we could expect a proportional increase of the sums to be allotted to us. In view of this communication, no change in the activities of this organization has been effected so far, and owing to the assistance rendered by EUGEN by the transfer of a smaller amount of money, the

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period until the end of January could be bridged. Now, the time has come for a decision, the fact being stressed that all measures to be taken for a reduction of our organization require a wind-up period of about 3 months.

- (4) In order to furnish an additional minor example of the effect of a decision, which we have difficulty to understand, I would like to point out that Mrs. WALDMAN's unexpected leaving this organization in the next days would lead to a considerable reduction of the amount of reports handled by us, since no qualified replacement is available and no officer can be made available for her former missions without detriment to other important tasks. Moreover, the editing job requires a prolonged period of familiarisation. Otherwise, lack of experience as to the way of cooperation with the translation section will lead to a great number of mistakes, which it will take some time to eliminate.

In writing these lines, I have selected only a few points to characterize our situation. I would like to stress once more that my belief in full US-German cooperation and the basic fairness of the US agencies with control of our work, remains unshaken in every respect. This is largely due to the personal contact with a number of eminent officers who are outstanding in their respective fields, such as individual representatives of the War Department; General HALL, Col. SOBOW, and Lt. Col. HRETCHFIELD in Europe; and last but not least, you yourself. On the other hand, I must confess that such confidence does not exist regarding the efficiency and competence of those parts of the US IS with which we have to perform our work.

Since I am responsible not only to the US as to the efficiency and loyalty of this organization, but am simultaneously charged with the responsibility, vis-a-vis the entire circle of the German co-workers, for the continuity of our work and their personal security, I feel obliged to submit to you, in a few days, some amendments of the Organizational Directive for the 7821 Composite Group, dated 13 October 1948, and of the various pertinent supplements, since several points are not acceptable to me in their present form.

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I am perfectly aware that certain difficulties are inherent to the particular nature of our work. For this reason, it seems to me all the more necessary that all reasonable US help for eliminating the avoidable difficulties should be granted to us by the competent US agencies. Should it not be possible to grant such assistance, the continuation of our work would lose its necessary basis and I would feel obliged to propose the dissolution of the entire organization. It goes without saying that in such a case, I would take all measures to effect the dissolution in the most loyal manner, which would in no way affect the political interests of the US.

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Inclosure 1 I

Excerpt Copy.

2 February 1949

Copy of a Memorandum Forwarded to Col. PHILP

on 3 February 1949.

I.

II. For months I am asking now for clearness concerning the financial means, which are available for the operation in the future. I stressed that it is not the point to have more money. The point is to have clearness. Even if we do not get more money, I am satisfied; but then I have to cut down the organization for about 40%, since the dollar dropped about 40% in value, as I forecasted. Every time I was told not to cut down, because our funds would be increased.

Since summer 1946 I was asking for the support by a sufficient number of American officers with the necessary background and experience. Up to now, this request was never fulfilled, not even in the utmost limits required for our work. In the contrary, the few experienced officers we have are being transferred - a fact nobody here or in the field will understand.

III. I come to the conclusion that I cannot take the responsibility for the operation neither toward the American nor the German side, unless measures are taken immediately to fulfill these requirements mentioned above. If not, I have to resign from my position. I know that the leading personnel in the operational headquarters as well as in the field will not be willing to continue their work in such a case. Therefore, I will present a plan for dissolving the organization over a period of several months. I assured General SIBERT of our loyalty. Therefore, the dissolution will be carried out in such a way that the American political interests will not be hurt.

Our political conception regarding the cooperation with the United States did not change. Therefore, I regret very much that I have to make this decision. Anybody who was in charge of large intelligence operations must agree that under these conditions which we are experiencing, it is impossible to work. If these conditions will not be changed, I am not willing to lose my reputation by working without the necessary support and the fundamental backing.

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Inclosure 1 m

Excerpt Copy.5 February 1949

MEMORANDUM TO: Col. PHILP

Measures to Be Taken to Cut Down the OrganizationDue to the Financial Situation

.....
 II. Conclusion:

An immediate decision will have to be made to cut down rigorously the organization. The following measures are intended and already initiated:

- (1) To cut down the total of the members of the organization from 4,000 to 3,300. The decrease will be carried out in each sub-organization proportionally.
 - (2) To stop all activities which need money beyond the normal routine work, such as:
 - (a) Operations to fulfill newly received or special briefs.
 - (b) Establishing of special courier lines to speed up the flow of incoming reports.
 - (c) Training and establishing of radio agents.
 - (3) To dissolve three sub-organizations. The most efficient parts of them should be taken over by other organizations. The way of carrying out this step has to be studied in detail before going into effect.
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Inclosure 1 n

~~TO GERMANY ONLY~~ Excerpt Copy.

5 February 1949

Dear General Hall:

.....

Anybody who is experienced in our operational Intelligence work knows that planning is a very essential part of the operation. Planning is based on the requirements and also on the funds given to the operation. It was absolutely impossible for me to obtain from the American side a definite statement concerning the funds allotted to this operation in time, i.e., 3 - 6 months ahead. Repeatedly, I pointed out in memorandums and discussions that the operation cannot continue on its present scale, if the funds were not increased. I also clearly stated that, if the funds are not increased and we have to continue to work with the amount we receive at present, we can do so, but would have to reduce the overall organization. However, I was told again and again not to cut down the operation because additional funds would be made available.

.....

As far as I am concerned, I am convinced that a direction and control of this organization by Intelligence Division, EUGCM, is absolutely impossible. With the exception of a very small number of officers from the Intelligence Division, EUGCM, I am convinced that the majority of the officers also at that headquarters have no operational Intelligence background and, therefore, are in no position to take decisions concerning the activities of our operation. Therefore, I propose that an immediate change be made in the subordination of this organization. I propose that this organization be placed directly under a headquarters dealing with our kind of undercover operations. A solution should be found, which assures the fulfillment of the requirements of EUGCM. In case you are of the opinion that such a change is impossible, I would appreciate that you would inform me, because then I am forced to execute the dissolution of our organization according to the proposals forwarded.

I am very sorry that the development took such a turn, but I am also convinced that I cannot take the responsibility for the future work to be continued under the prevailing conditions. It is impossible to concentrate on the planning and execution of our mission while facing continuously the obstacles artificially created by lack of understanding.

Under no circumstances would I wish to create a wrong impression of my

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94. (Continued)

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decision not to continue working unless the present conditions are changed. I shall always remain loyal to our mutual cause. However, nobody can expect from me to do a job without providing me with the basic requirements for our work.

By closing this letter, let me stress again, Sir, that I am regretting deeply the development, and also that I have to ask you for your personal help. Both of your visits here showed me the personal understanding you have for us and our problems. The confidence of all of us in you gives me the hope, that by your personal action the matter might still be brought to a good conclusion, and to find a solution which will fulfill the basic requirements for our work in the interest of our mutual cause.

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94. (Continued)

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Inlosure 2 a

Excerpt Copy of a Memorandum to General WALSH

dated 9 June 1948

.....

During the last months, I have repeatedly requested that an Operations Section should be formed under the management of the officer who has done all this work for 18 months, and that Col. LIEBEL should arrange his work according to the same principle as I do it myself. He should reserve for himself the decisions on fundamental questions but, otherwise, leave a free hand to his officers. However, Col. LIEBEL did not decide to bring about any alteration until he realized my determination to appeal to the next higher headquarters in case nothing would be changed. Instead of making the two officers the nucleus of this Operations Section, who have a first-class knowledge of the total organization, its working methods and its mentality, and who have the complete confidence of all field installations, it is planned to get a number of new officers and to assign a new Lt. Colonel as the Chief of this Operations Section, who is not acquainted with us and our working methods. During conversations with me, Col. LIEBEL emphasized that he wanted combat officers only and not officers from the Intelligence branch. Exactly the contrary is necessary. The two officers who so far were brought here by Col. LIEBEL, Major BAIRD and Lt. KESTLINGER, are nice fellows but quite unsuited for their jobs. I request you, general, to take into consideration that I have succeeded in securing for you the best German staff available for our work. If the American side has not likewise assigned only the best of the available American staff, it is a psychological disadvantage and detrimental to the American cause.

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 By MBNARA Date 06/05/02

94. (Continued)

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Inlosure 2 b

Excerpt Copy of a Memorandum to General HALL
dated 5 February 1949

.....
 It is very obvious that this operation needed more experienced US Intelligence officers. However, with the exception of the new Commanding Officer, Col. PHILP, whom we know for several years, and Major WALKER, Capt. WALDMAN, Capt. RICHARDSON, and Capt. REDDEN, no Intelligence personnel with experience in agent operations or special background was assigned to this operation. We received a number of officers who are absolutely unfit to work with an Intelligence operation of our kind. They do not possess any Intelligence experience, have no knowledge of the native language or of German mentality, and also partly do not have the right attitude toward the organization. Not only that they are not able to give the necessary support to the operation because of lack of knowledge, they are partly also hurting the operation by starting mutual distrust and lack of confidence.

As you already know, we are just about to lose two of operational experienced officers, and I also will never understand why, for instance, Capt. WALDMAN was transferred without first sending a replacement who could have been briefed and oriented by him prior to his departure. I cannot believe that Intelligence Division, EUGCM, was not able to do that. It proves to me the complete lack of understanding of our requirements, particularly in the personnel policy, and at the same time, I can assure you that at the present situation, we are not capable to work without experienced American Intelligence officers. Therefore, I am requesting a definite change in the US personnel policy as far as our project is concerned.

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Inclosure 3 a

Excerpt Copy

of a Verbal Note Read to General WALSH on 19 May 1948
on the Occasion of his Visit

.....
Your special attention, general, is invited to the problem of funds. The amount of the required funds depends on the orders given to us. Therefore, I ordered the calculation of the costs for each separate brief.

I do not know the amount of the funds which can be made available to our organization. It might be necessary to decrease the means by eliminating some of the briefs.

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94. (Continued)

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~~TO GERMANY ONLY~~ ^{Excerpt Copy.}

Inclosure 3 b

11 September 1948

Minutes of the First Meeting
of the 782I Composite Group Budget Board.

.....
 Col. HERRY asked for the proportions of how to cut the tactical or the strategical intelligence. Mr. HERDAHL answered that the decision of where to cut is not up to the German organization. We should have a priority of ERI's from the American side. Col. HERRY promised to get this priority as fast as he can. Some time ago, Major STRONG had already promised to send a priority list, but nothing arrived so far.

Capt. SWEARINGEN stated that Major STRONG and Col. MEYER had assured him that we would possibly get a substantial increase very soon. He suggested not to make cuts right now, but to wait for approximately two months before taking any such measures, if then.

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(see also Inclosure 1 c)

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94. (Continued)

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Inclosure 3 c

Excerpt Copy.

29 September 1948

MEMORANDUM TO: 23

.....
The budget estimate submitted by the organization before the beginning of the fiscal year 1948/49 had been made in accordance with the requests for information received by the organization. In order to direct the work of the organization properly and give the orders for intelligence work according to plans, it is absolutely necessary to know definitely which financial allowance the organization will be able to count on finally for the current fiscal year.

Should it not be possible to allot the funds necessary to fulfill the tasks set to the organization, then the question arises which steps will have to be taken to bring the tasks of the organization into accord with its funds. For one thing a priority for the individual information requests could be fixed, whereby all those requests should be cancelled for which there would not be enough money. The requests from the American side which could not yet be started due to the lack of money would have to be finally dropped.

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(see also Inclosure 1 e)

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Inclosure 3 d

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Excerpt from Letter to General HALL of 5 February 1949.

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5. As already stressed before, my repeatedly submitted request that I be informed 3 - 6 months in advance concerning the amount of available funds has not been complied with. Furthermore, there is an increasing discrepancy between the EEI's forwarded by the superior US authorities and the funds actually placed at the disposal of this project.
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