

APPROVED FOR RELEASE  
CIA HISTORICAL REVIEW PROGRAM  
22 SEPT 93

~~CONFIDENTIAL~~

*A striking instance of the post-war hiatus in U.S. intelligence and counterintelligence activity.*

**COVER: PROPERTY RESTITUTION**  
**Frederick D. Barathy**

Of the many opportunities presented Soviet intelligence in the early postwar years to work unhampered in the Allied occupation zones of Germany, probably none was more nearly ideal than that offered by the large, unprecedented program for the return of confiscated property from the U.S. zone, under which the Military Government played helpful host to restitution missions from the countries looted by the Nazis, including those of the Soviet Bloc, from late in 1945 to June of 1949. Although virtually no instances of intelligence activity were detected, the presumption remains, reinforced by certain indications, that the Soviets took full advantage of the situation. The obverse opportunities, on the other hand, for U.S. intelligence recruitment of Bloc mission members apparently went unexploited.

*Operation of the Program*

Established for the just purpose of restoring to its rightful owners property of all kinds, from art treasures to industrial plants, that had been removed to Germany from the occupied countries, the program was administered by a Restitution Control Branch of the Military Government headquartered at Frankfurt am Main and directing, under the policy guidance of a small staff in Berlin, a field organization with units in the individual *Laender*. These would locate claimed property, the mission of the claimant country would come to identify it, and the property would be placed under Military Government control until it could be shipped out. Each claimant mission was assigned an RCB officer to work with it, but unless it was a large and active mission—like the French, with a staff of up to 30 members—it would share his time with several other missions.

~~CONFIDENTIAL~~

Czechoslovakia and Poland, Yugoslavia, the USSR, and ultimately the early Axis allies Hungary, Rumania, and Bulgaria had felt the Nazi heel and seen many of their national assets forcibly removed to Germany. They especially wished to recover scientific equipment, important precision machinery, refined minerals, and industrial materials thus commandeered. In its anxiety to put to rights the injustices perpetrated by the Germans, the U.S. Military Government welcomed the missions from these countries into a setup for intelligence operations about as perfect as can be imagined. The missions not only had a good legitimate reason for being in West Germany but enjoyed official recognition, a sympathetic attitude, and logistic support. They could bring in a healthy complement of regular personnel—about 30 for the Bloc countries together—and additional specialists without restriction for knotty restitution problems. There was almost no surveillance and a liberal policy toward travel. No restriction was placed on communication with home governments. It was normal that chiefs of mission or their deputies would periodically go home to report progress and receive instructions.

It is true that mission officers were required to get RCB orders for their travel in the zone—a regulation to which the Bloc missions in particular religiously adhered—and that as a rule their RCB officer would accompany them on their property inspection trips. This was not a counterintelligence practice, however, but a safeguard against the possibility of illegitimate deals between the mission officer and the property holder at the expense of the claimant. The few cases of such illicit activity reported would bring the warning that a second offense might result in expulsion of the officer as *persona non grata*. Some offenders were removed by their own chiefs of mission.

#### *Grounds for Suspicion*

In 1947 a member of the Yugoslav mission, reported for trying to obtain technical information from a German metal manufacturer while ostensibly on restitution business, was given such a warning. By this time, with the cold war in full bud, the suspicion was growing that the Bloc countries were using their missions for non-restitution activities. Casual surveillance of their members was attempted, partly with Mili-

tary Government personnel and partly with the Army CIC; but no further evidence of improper behavior was detected. The whole emphasis of policy, moreover, remained on European restoration rather than on counterintelligence or other cold war measures. Surveillance, the monitoring of travel, the double-checking of mission activities, and even obstruction of the shipment of war-essential materials were held to a minimum: it was feared that such acts might be officially protested as unfriendly by the governments concerned.

The only major U.S. use of the restitution program to gain leverage in a cold war issue had occurred earlier, in 1946, when an American plane was downed over Yugoslavia. RCB received instructions then to withhold shipment of a considerable amount of agricultural equipment until the political ramifications of the incident could be settled. The shipment was delayed, in fact, for several months.

The Bloc missions were in general of high caliber, prompt, assiduous, and capable in presenting claims and handling cases. Only the Soviet mission was comparatively aloof and not very punctual or thorough. It did effect restitution of some machinery and some university libraries, but on the whole manifested little interest in the program. Although its staff accreditation time was tremendous, its office was frequently closed and the whereabouts of its personnel unknown; but when it was open there were always at least two officers there.

A final sign of the likelihood of ulterior activities in the Bloc missions was given in their reaction at the end of 1948 to plans for phasing out the program for a few months and then closing it down. By now the bulk of the restitutions had been made, and for many of the missions the cost of continuing to maintain a staff in Germany would be altogether out of proportion to the value of the property they might still recover. Nevertheless there was an avalanche of protests, not only from the missions themselves, whose staffs might have had a personal reluctance to return to the comparative austerity of life in their homelands, but from the governments they represented, especially in the Bloc. It was argued that three years and a half was not enough for the intricate work of locating looted property and tracing and proving ownership, and that the Americans had dragged their feet on some of the

most lucrative claims. But the Military Government was adamant, and June 1949 saw the end of the unique and expensive U.S. program.

*Dissidence and Defection*

Although U.S. intelligence apparently took no advantage of the program to recruit members of the mission staffs, a number of the Bloc officers defected on their own initiative, especially toward the end. During the initial stages, two Hungarians temporarily attached to the Hungarian mission pleaded with U.S. officials for assistance in removing the assets of a textile factory—money, stock, and some personnel—out of Hungary to the West, preferably to the United States. The Military Government could not act, of course: it was policy not to disturb political relations with any country engaged in the restitution program. It had to take the same correct attitude toward an intriguing plan of the Czech mission to withhold shipment of a sizeable amount of recovered precious stones and jewelry, sell them, and give the proceeds to the Czech exile movement then beginning to form in the United States.

Early in 1948 the Polish mission chief, a rough and outgoing but shrewd man, told the RCB that his deputy had been caught buying marks on the black market, a common practice, and would be sent home. Such charges were not a matter for RCB action except as the Military Government, on German complaint, might decree an offender's expulsion. Within a few days, however, the deputy decamped to New Zealand, and it was learned from his colleagues that the black market charge had been trumped up in an effort to forestall his politically motivated defection.

A Hungarian specialist brought in to work on the restitution of certain types of property with which he was familiar also defected in 1948, shortly after his job was completed, to England. Two other Hungarians fled to Sweden when the program was closed down.

With one other dramatic exception, the bulk of the staffs of the Bloc missions returned meekly home to their police states in June 1949. It was known to the top officers of the RCB that the chief of the Czech mission, an astute, well educated,

*Property Restitution*

~~CONFIDENTIAL~~

and very courteous gentleman, planned not to go back. But he had the calm audacity, after closing his mission with all the proper formalities, to return to Prague and ship out some of his personal property before leaving for England under the very noses of the Czech authorities.

~~CONFIDENTIAL~~