



Fat Leonard – Craig Whitlock

[00:00:06] On today's podcast I'm speaking with an investigative reporter who has been covering the Fat Leonard scandal. It's a story about how, essentially, one man based in Asia ended up ripping off the U.S. Navy for millions of dollars through a web of corrupt and fraudulent transactions. Craig Whitlock has been with The Washington Post for almost 20 years. He has reported from more than 60 countries and has done some of the best reporting on the Fat Leonard story to date. Thank you for joining me Craig.

[00:00:31] Sure thing. Thanks for having me.

[00:00:33] In preparing for this podcast, one theme really stuck out and that was just how brazen the details of this story are. I guess with financial crime there is always a component of that and we'll hear more about that and some of these other stories. But this story just seems to be worse than most. Could you just start by telling us a little bit about Fat Leonard, the character at the heart of this story?

[00:00:56] Yes, of course. So "Fat Leonard" is a nickname for Leonard Glenn Francis, who is a Malaysian citizen. For years, he ran a family business called Glenn Defense Marine Asia. And in the Navy it's known as a husbanding service, and that's a Navy term meaning they provide services to Navy ships and submarines whenever they go into port anywhere in Asia. And these would be services like fuel, pumping sewage off the ship, providing security in port, anything a ship might need in terms of provisions or equipment or things like that that the Navy itself isn't in a position to furnish. This company Glenn Defense Marine Asia was clamoring for Navy contracts to do this work throughout Asia and eventually did it in a huge range from Vladivostok, Russia, down to Australia and then back west to Dennai, India. So they covered really the whole area of operations for the U.S. Navy's Seventh Fleet, which covers most of the Asia-Pacific region. So Glenn Defense Marine Asia was a critical supplier to the Navy. The Navy really couldn't function without a company like that, giving it supplies and fuel throughout Asia. And to give you a little history, Glenn Defense Marine Asia started back after World War II, by Leonard Francis's grandfather. So this was a family company. And over the years it grew very big under his control and was really expanded to a large degree by having contracts with the U.S. Navy. At last count they held contracts worth almost US\$200 million.

[00:02:43] It makes sense that the Navy needs somebody like this on the ground to make local arrangements for them. Do you have any sense of how Glenn Marine was selected? Did they have some particularly fantastic reputation or infrastructure that made them ideal for this?

[00:02:59] Well, initially like any other defense contract, they would have to compete for it and they did have competitors in Southeast Asia. And, at first, as far as we can tell, because their

relation with the Navy goes back decades that they won a few contracts here and there and gradually expanded the relationship with the Navy. But what they did without question - and I think people in the Navy would admit this and certainly Leonard Francis would admit this - is that their service was pretty well regarded. He had a lot of tugboats, work ships, a lot of people in these ports that his service was pretty good. It was pretty reliable. And the Navy liked having that. Now what the other side of the coin, of course, is that he was gouging the Navy for tens of millions of dollars and bribing Navy officers to ensure he received these contracts. But there weren't many complaints from the Navy that his service was slipshod or unreliable.

[00:03:58] So there was an underlying service that was legitimate to begin with. But somewhere along the line, the whole thing gets tainted by fraud and bribes and kickbacks. And perhaps most worrying - and this is why this story crosses over from commercial financial crime to national security - is by the end of this story, he is directing the movement of U.S. carrier groups in Southeast Asia. Am I overstating it?

[00:04:22] No you're not at all. It's really astounding. And if I could even take you back a little bit further to how this was uncovered: Back in September 2013, the Navy announced that the Justice Department had arrested Leonard Francis in a sting operation in San Diego and that a number of other Navy officials and officers were rounded up in an international law enforcement investigation. Until that point, very few people had heard of Glenn Defense Marine Asia or Fat Leonard. The services they provided were pretty anonymous, but all of a sudden there were several people rounded up, and the allegations that were coming out of the indictments were really shocking. As you said, Leonard Francis actually had the power to influence the Navy to move its aircraft carriers and other warships from one port to another. And the reason he wanted the Navy to do this is he wanted to funnel these large ships and vessels to ports that he effectively controlled like Port Klang, Malaysia or Phuket in Thailand, where he controlled all the infrastructure and essentially held a monopoly on services and could therefore charge the Navy these sky-high prices for things like fuel or to pump sewage off ships or protection in port. He was marking up the cost by three, four, five times what a competitor would. But because he had a monopoly, he was able to do this. But he had developed relationships with so many Navy officers - senior officers - that were on his payroll that accepted bribes from him that he was able to effectively influence the movement of Navy warships for years at a time. And the fact that a foreign defense contractor had that power is really something that I think is without parallel in the history of the U.S. Navy or even the U.S. military.

[00:06:22] It's certainly worrying. Can you describe some of the bribes? Very often when we talk about these cases, there's hundreds of thousands or millions of dollars changing hands for the sort of discretionary decisions that are being made on his behalf. But a lot of this stuff was pretty petty stuff - meals, hotel rooms, the US\$25,000 watches that seem to be the currency of the morally bankrupt - I know this from my FIFA days. These were not, in most cases, large sums.

[00:06:53] That's right. But what Leonard Francis - and if I could give a side detour here, to describe him as a person. And his nickname is Fat Leonard - it's probably not a shock to know that he's a large man. He weighs about 350 pounds, but he's very charismatic. He's very intelligent, and that even though he was from Malaysia and grew up there, attended English language schools - this is not a man who had spent much time in America, yet he was able to really understand U.S. Navy culture, military lingo and how to appeal to personalities of officers in the U.S. Navy. And the thing he figured out is he could really target people, figure out who would be susceptible to certain categories of bribes. And these bribes really fell into a few different classes. One was - and these are all old fashioned bribes. You won't be surprised by the brazenness of this. One was sex that he figured out that Navy officers and enlisted sailors a long way from home on voyages of several months at a time, who are susceptible to prostitutes and not just any prostitutes. Leonard liked to hire high-class prostitutes, particularly beautiful women. There were a number of people in the Navy who would take him up on this offer to go out to four-star, five-star dinners at some of Asia's best restaurants. Leonard would buy Cohiba cigars from Cuba. He would then have the women join them for after-parties at extravagant nightclubs. And he would take these women back to the hotel rooms with the Navy officials, hotel rooms that Leonard and his company had paid for - at the Shangri-La Hotel, at the Marriott in Jakarta, some of Hong Kong's finest hotels. So whenever these Navy ships would come into port, when the sailors or officers would want to go on "liberty" as they call it, or leave for a few days, Leonard would make sure they had a fantastic time. And he found dozens and dozens of Navy personnel who were willing to accept his gifts as bribes and his offers of money, sex, dinners, what have you. There were plenty of people who are willing to take him up on this. And over time, as Leonard got people to accept these gifts and favors, he then would twist their arms to do him favors, to do his company favors. And whether that was to give him classified information about the Navy's plans to move its ships around Asia or sensitive information about his competitors and what they were preparing for bids for defense contracts - he had dozens of Navy personnel who were doing his business for him. But again it all started with the - forgive the pun - the most naked of bribes. It was sex, it was money, it was fancy dinners. Sometimes he would give out envelopes of cash, though, when it were people who were in particular positions of power and influence. About 10 years ago, he worked a deal with a Navy contracting officer in Singapore to fix a contract for several ports in Southeast Asia for Leonard's company, and he literally gave this Navy official envelopes stuffed with US\$50,000 in cash on multiple occasions. So, again, the sophistication of the bribes were not - you know, there wasn't anything particularly advanced about this. Leonard just figured out how he could target people in the Navy, what they were susceptible or vulnerable to, and then he would have them under his control, really. Because once they had accepted these gifts or bribes, they couldn't really go back because they knew it could always be reported and they would get in trouble. So a lot of these people are on the hook to Leonard for years at a time.

[00:10:52] That's always the way with these arrangements when you put your toe in the criminal water if you like, and then after a while, you can't back out. There was one really interesting communication that was referred to in one of the indictments where an officer

refers to easing another officer into the fine dining. And it's clear that there's a lot of turnover in the Navy as people rotate in and out of these positions and making sure that the inbound officers end up amenable to the whole scheme. It's sort of mind boggling that it took so long to uncover this, given how many people were involved. How were these officers communicating with each other and doing the hand-off of the illicit scheme?

[00:11:37] Well, that's a really good question. It is stunning how long this went on. We don't know yet how far back it went. But recently there were some court documents filed in federal court in San Diego that indicate an admiral in the Navy first struck up his illicit relationship with Fat Leonard 20 years ago, when he first started accepting hookers and dinners and hotel rooms. And this relationship he had with Leonard would resurface every time he was redeployed to the Pacific or he came through the region. So Leonard had these long-standing relationships with people who would start out as junior, mid-level officers, and as they rose through the ranks, they would often come back to the Seventh Fleet area in Asia. And Leonard was very good at continuing these relationships, staying in contact with people over the years as they rose and became more and more senior. But you're right. One striking thing that he was able to do is use his moles in the Navy, people he had already flipped, to work for his company to help recruit their replacements. And that Leonard was very aggressive about this, he would say to officers or captains or lieutenant commanders, "OK, you're leaving to go back to Washington or another assignment in a few months. We need to find somebody to replace you who can keep helping me out." And again, strikingly, the number of these people agreed to do it for Leonard. They somehow, I think, saw him in a twisted sort of way as a friend of the U.S. Navy, somebody who liked sailors, who liked Navy officers, who was actually - even though he was Malaysian - that he was a patriotic American is how they saw him. Leonard was a guy who - his ring tone on his phone was Lee Greenwood's song about "God Bless the USA," which is sort of an unofficial anthem for the U.S. military. He wore stars and stripes on his clothing at times. He held himself up as this great friend of America. And in a very distorted way, a number of these Navy officials thought well you know maybe Leonard's sleazy, maybe he's crooked, but you know he's trying to help us and that they wanted to help him, too. So they were willing to help them find replacements, people who would keep sending him classified information. But really, it's the totality of the case and the corruption that went on over at least 20 years that is still just remarkable the more we know about it. The fact that we have at this point up to two dozen defendants in the case, most of whom have pleaded guilty, that we had at least over a dozen Navy officers who have admitted giving Leonard Francis classified information. There's not been another national security scandal like that, with so many people involved, all agreeing to give classified information to a foreign citizen. One source of mine had told me that Leonard was so good at penetrating the Navy, he was better than the KGB at it. In terms of a counterintelligence threat, I'm running out of adjectives to describe how serious that is. But, again, from a personality and charisma standpoint, he was really, really good at recruiting people in the Navy to take his bribes and do work on his behalf.

[00:15:07] This is a bit of a digression, but I'm just curious: I've never heard, did he have any other clients do this sort of work for other navies or was it just the U.S. Navy? That obviously doesn't change anything much, but if he's getting classified information from multiple navies that somehow more worrying.

[00:15:23] Well, that's right, and the question is, what is he doing with that classified information that he gets from the Americans or other countries? And, yes, the answer is he did do work. His company serviced other navies, including the Australian Navy, the French Navy, the Malaysian Navy, the Philippine Navy. I mean, pretty much any navies - the Canadian Navy, the Royal British Navy - whenever they went transit throughout Southeast Asia, there is a pretty good chance they were hiring Leonard Francis's company to provide them fuel or services or this husbanding assistance, as the Navy will call them. In fact there are now at least two Australian officers who are under investigation by authorities in Australia for their relationship with Leonard. A couple of these Australian officers were actually liaisons with the U.S. Navy's Seventh Fleet, and that's how they met Leonard, and were allegedly part of this ring of officers who were Leonard's moles and did his bidding. One thing we don't know, though, exactly, is what did he do with all this classified information? The security threat of him having that much information about where U.S. warships, nuclear-powered submarines, where they were going to be, where the plans were to send them for months in advance - that's very sensitive information. There haven't been any allegations that Leonard sold that information to a power that would be hostile to the United States. But, certainly, the risk of that happening was enormous because Leonard had all that information. It would have been easy for him to pass that along to the Chinese, the Russians, or other countries that the Americans would not want to know where their ships were headed. Besides the bribery and corruption aspects, there are enormous national security implications in this case.

[00:17:15] That's again part of what's really stunning about this. There have been many cases in the past - a large number that came out of Iraq - of military personnel selling their procurement judgment, saying we're going to buy from this vendor over that vendor and getting a kickback as a result. But this is so interwoven with the classified information and national security implications that it's more surprising as a result. And his connections didn't just end out in the fleet in Asia. He had, I think - and you'll have to help me with this - one or more moles within NCIS when the investigation really got up and running.

[00:17:53] That's right. Every time I write a story about this case, readers say, "What were these people in the Navy thinking? How could this go on? How could so many people be involved?" Again, as you point out, one of his most valuable moles was a guy named John Beliveau, who was a senior agent for the Naval Criminal Investigative Service. And he was based in Singapore and other ports in Southeast Asia for several years. So his job is to do criminal investigations of fraud, counter-terrorism, all sorts of cases. He was a law enforcement agent. But eventually Leonard got his hooks into him. Beliveau accepted prostitutes, dinners, - although he accepted quite a bit of cash, more so than some of Leonard's other moles, and in return he fed Leonard all the law enforcement files, all the very sensitive law enforcement cases involving Leonard's

companies. And one thing The Washington Post found out using the Freedom of Information Act and other public records was that NCIS had actually investigated Leonard's company on more than two dozen occasions before it was able to bring any sort of action against it. So we know that going back for at least 10 years, NCIS was repeatedly tipped off that Leonard's company was defrauding the Navy, was ripping off the Navy, was overcharging the Navy, was forging documents, was buying off Navy officials. And yet, more than two dozen cases were closed without taking any action because NCIS has said it couldn't find enough evidence. Well one reason NCIS had trouble investigating Leonard and his company was this mole, John Beliveau, because every time another NCIS agent would open a case file, this information would be entered into a central NCIS database. And Beliveau, over a period of years, would download these case files, which would include reports of interviews, interrogations - all the evidence that NCIS was collecting against Leonard, Beliveau was surreptitiously feeding that information to Leonard. So it became very easy to evade the detectives and prosecutors who were looking at his company. In fact, Beliveau would advise Leonard on, "Here's what you need to do to get them off your trail. Here's what you need to do to get them off your back." And this went on for several years, up until 2013, when, in fact, Leonard and Beliveau were arrested within a day of each other. Beliveau at that point was back in Washington. He was a special agent in charge of NCIS' Quantico field office. He was a very senior case agent at that point, and up until a few days before their arrest, Beliveau had been feeding Leonard these very sensitive law enforcement case files, and it took NCIS years to figure out that it had such a mole that high up in its agency and how to ferret him out. That alone is an amazing story. That's just one of Leonard's moles. He had dozens of people in the Navy working for his company.

[00:21:09] It's a little surprising that this story hasn't received or hasn't gained more traction in corporate circles because it's really a story about a breakdown in governance and internal controls, as well as everything else. But at least buried in what you just said is there were some tipsters or whistleblowers. There were apparently some people trying to get this information to NCIS. But they trusted NCIS to then act on that information without, of course, knowing that there was a mole that was thwarting that effort. But the question that always comes up is how could a company, an organization - in this case the Navy - have uncovered this sooner? It went on for such a long time, and it sounds like that mole at NCIS is really the answer to that question.

[00:21:53] I think that's part of the answer. But one reason this story has not gotten wider traction, as you put it - I mean certainly, the Washington Post, we spilled barrels of ink writing about this case because it's so appalling. And I've been devoted for more than three years to covering this case now. But one reason, publicly, I think in Washington and elsewhere that it hasn't got more public attention is because the Navy is horribly embarrassed by the behavior of so many of its personnel over such a long period of time. And they don't want to talk about it. They don't want to come clean about it. The organization that's been doing almost all of the public disclosure in the case has been the Department of Justice, and the Navy has been very, very tight-lipped since Leonard was arrested and since a number of Navy officers were arrested.

On only rare occasions have Navy officials -including the former Secretary of the Navy, the Chief of Naval Operations - only on the most rare occasions have they addressed this case. They don't want to talk about it. Officially, they say they can't comment because there are ongoing investigations. But certainly they could comment on the damage this has caused to the Navy, what the Navy's going to do about it, about clearly a culture of corruption that existed in the Seventh Fleet for many, many years. But the Navy has been trying to keep the lid on this precisely because it is so damaging to the Navy's reputation. Similarly, though, Congress has sort of given - there was a house oversight committee that at one point that had taken a look at it, but it has asked very few questions. I think part of this is because the case is still ongoing in federal court. There are still other suspects who haven't been charged yet. A number of these arrests have dribbled out over the years, but really the rot went to the top in the U.S. Navy. We've had two admirals who have been indicted now, one of whom has pleaded guilty. And I want your listeners to appreciate how rare that is. One of the admirals is the only active-duty admiral ever to be convicted of a felony in civilian or military court in the history of the United States. The other admiral was recently retired. He's contesting the charges. But it is so rare for an admiral in the U.S. Navy, which otherwise has such a long history of integrity and the highest standards for its officers - but its officer corps reaching up to the very top of the ranks are implicated in this. And this is something the Navy has never quite come clean about, which is how many people were involved in this? How far back did it go? What about all the retired officers who took bribes from Leonard years ago - are they ever going to be held to account? These are questions that the Navy, so far at least, has shown no inclination of trying to answer in public.

[00:24:49] It's fascinating. We're going to hear from the former general counsel of Siemens on this podcast as well. And one of the comments that he makes repeatedly is you have to draw the line - you have to say this is now in the past, and then fully disclose the misconduct, and then describe in great detail how you're going to ensure this sort of thing never happens again or you don't have any chance at all of restoring public confidence. Where we've heard of, I think there have been 27 indictments so far. There's a reported 200 other people who are under investigation at some stage. So this story can come out, as you say, one incident at a time over a very long period, or the Navy can take a lesson from corporate America and say, "No, you've got to come clean all at once, or it's just going to be a slow hemorrhage."

[00:25:42] I think it's been a slow hemorrhage, and while the Justice Department will announce indictments or plea deals - like I said, the Navy has been very tight-lipped. And not to toot our own horn, but if the Washington Post hadn't been writing so much about this, I don't think - very few people in the American public would be aware of this scandal and certainly not the depth and breadth of it. I mean, the fact that you could have 200 people under investigation in a military corruption scandal with a foreign defense contractor dealing bribes and classified information, and the fact that this went on for at least 20 years is really sort of breathtaking.

[00:26:21] Absolutely. So thank you so much for your good work on this. The Washington Post and your writing is what I keep going back to whenever I have a question about the story. And,

you're right, I wouldn't have any of this detail at all, I think, if it weren't for The Washington Post and your good work. So thank you for that. I will reach out and see if I can get you to join me again if more news breaks or when more news breaks or if the Navy does have a more public response to the scandal.

[00:26:48] Very good. Happy to talk about it. Thanks for having me.

[00:26:50] Thank you so much Craig.