The Malta Connection

Original article

The Malta Connection: A Corrupting Island in a "Corrupting Sea"?

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Abstract: Amidst turbulent economic growth, the recent history of Malta has been punctuated by major corruption scandals and indices of large-scale money laundering. These developments are usually attributed to changing fiscal policies seen as disembodied from the spaces and flows where they are embedded. By calling into question this abstraction, this article aims to explore the extent to which the condition of insularity of the Republic of Malta has contributed to the rooting of organised crime in the country. In particular, it focuses on the Libyan oil smuggling schemes pivoted in Malta with a view to discussing the idea that the specific territoriality of the maritime space is a crucial enabling factor of illicit economies. It will argue that islands such as Malta—when looked at in terms of nodes of the connective maritime space—challenge the political and economic assumptions upon which the modern idea of sovereignty is usually predicated. The article is based on the data collected from interviews with Libyan, Tunisian, Maltese and Italian experts in security and organised crime.

Keywords: organised crime – illicit economy – gambling – money laundering – oil smuggling

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The European Review of Organised Crime 5(1), 2019, 10-35.

ISSN: 2312-1653

Introduction: Why Has Malta Become a Criminal Hub?

On 16 October 2017, a remotely detonated car bomb killed Daphne Caruana Galizia near her house in Bidnija, Malta. Galizia was a Maltese investigative journalist running a hugely popular blog known to expose corruption scandals involving high-profile local politicians. A couple of months later, ten people were arrested on the “reasonable suspicion” that they were involved in the killing of the journalist, and three of them charged to be the executors (Kirchgaessner, 2017). At the time of writing, though, these claims remain unconfirmed, while no names have surfaced about the possible instigators of the attack, prompting Europol to point out Malta’s laxity and lack of cooperation (Kirchgaessner, 2018).

Galizia’s killing brought Malta into the spotlight and attracted considerable media and political attention to the island-state’s alarming entanglement of extra-legal economies, corruption and cronyism. “There are crooks everywhere you look now. The situation is desperate”, were the last words written by Galizia on her blog right before the killing. Subsequent reports have highlighted that the transnational scale of the criminal economies pivoted in Malta give the island a much greater geopolitical significance than its small size may lead one to suspect. Media and even police reports have been eager to immediately dub Malta a “mafia-state”, possibly relying on a conceptualisation made popular by the work of Moises Naim (2012). However catchy, though, this framing fails to provide a convincing account of why, over the last 15 years, Malta has come to play such a disproportionate role as a hub for transnational illicit flows and criminal activities, in spite of its isolation and small size. Stemming from this research gap, this article ambitions to provide a plausible explanation of this puzzle. It hypothesises that Malta’s attractiveness for organised criminal activities depends on three interrelated factors: a structural one, rooted in the *longue-durée*, and connected to Malta’s historic-geographic features; a political one, resulting from Malta’s internal power contingencies, and connected to the salience of informality in its political order; and a jurisdictional one, built on the temporality of Malta’s access to the European Union, and connected to the ambiguous status of Malta within the EU. These factors combine and morph into a mechanism that contributes to explaining why Malta has become a hub of extra-legal economies and organised criminal activities.

Looking at its structural characteristics, Malta is a small island-state poorly endowed with natural resources. The lack of domestic potential has made of the attraction of economic flows a vital necessity. From this perspective, Malta’s island-ness should be seen in structural opposition to isolation and autarchy. Historians have long pointed out that the ease of movements (Braudel, 1979) and connections—or connectivity (Horden and Purcell, 2000)—are among the defining characteristics of the Mediterranean. The peculiar human geography of the region makes of the Mediterranean a “corrupting sea”—to borrow Horden and Purcell’s famous definition—one built on niche polities which are non-self-sufficient and therefore prone to exchange and trade. *A fortiori*, the same can be argued for Malta, a quintessential crossroads in the middle of the Mediterranean. In the same vein, popular theories of contemporary geopolitics have stressed that small states, just like Malta, are particularly prone to develop connections and become hubs of an emerging global “connectography” (Khanna, 2016) of transnational flows. From this perspective, the origin of such flows and the legal status of the resources mobilised become less relevant, especially if, as is often the case with criminal activities, the externalisation of the costs incentivises free-riding attitudes. This is likely to be particularly the case in countries characterised by a path dependency of externally granted protection.

Since the Middle Ages and through colonial times, Malta has been coveted by hegemonic states as the outpost to control the Mediterranean Sea. As a result, Malta's security has been traditionally ensured by foreign actors, with the British maintaining a military foothold on the island until about 40 years ago. Since independence, Malta has not invested in the development of an efficient law enforcement apparatus. Today, the totality of Malta's security sector amounts to a few thousand individuals. According to local observers, it lacks the sheer magnitude, let alone the resources, to deal with a variety of complex security threats emanating from a very unstable regional environment.

Building on these "grand narratives", one could then hypothesise that the need to participate in the economic connections indispensable to ensure the prosperity of the island may have reduced the political willingness of local authorities to invest in the security sector and curb economic flows of illicit nature and harmless semblance.

Structural features combine here with unit-level specificities. Looking at the internal power dynamics, the article suggests that Malta shares important characteristics with the so-called *shadow states* prevailing in many post-colonial settings. In shadow states, local strongmen forge informal ties with foreign investors, to whom they grant protection on a personal basis, and invest the resources of this joint venture to ensure the compliance and loyalty of clientelist networks. Shadow states then emphasise "the informal market role in rulers' construction of a parallel political authority" (Reno, 1995, p. 1), whereby "rulers boost their direct, personal interventions into markets, both formally and clandestinely, to bolster their personal power and private wealth" (Reno, 2000, p. 29). The extraction of private profits generates the resources needed to strengthen political patronage, and to shield business partners from interference by law enforcement agencies. Notably, the subjection of the judicial power to the executive one is key to ensure the smooth functioning of this kind of governance. From this perspective, shadow states should not be seen as the passive object of a capture by non-state greedy appetites, whether of an economic or criminal nature, because state bureaucratic agencies and personal affiliations are often interpenetrated, and cooperation prevails over competition. Dichotomies, such as private and public, politics and economy, formal and informal, licit and illicit, overlap and intertwine. In shadow states, political elites collude with networks of extra-legal economies, that is those "broad areas of economic activities that take place outside of and beyond the legal framework" (Strazzari and Kamphuis, 2012, p. 58), including practices of informality and organised crime.

Malta's joining of the EU in 2004 has given new momentum to such dynamics, lending weight to the idea, put forward by organised crime scholars, that "once organised crime gains a foothold, it can spread like a cancer throughout a whole region, which can have wider consequences for international security" (Kemp, Shaw and Boutellis, 2013, p. 16). The history of state-building has often witnessed a tacit pact between centres and peripheries, whereby fringe areas, and islands in particular, have accepted subjection in exchange for an informal regime of exception allowing practices otherwise inadmissible to take place more or less undisturbed. This is why borderlands have been found among the quintessential locations where organised crime unfolds, as geographers have pointed out (Hall, 2012). As part of the intricate “state”-building process of the European Union, Malta has been able to carve out for itself such a normative regime of exceptionality (in the sense given to this concept by Giorgio Agamben, of being taken inside from the outside, see Agamben, 1998). In particular, Malta was the first country in the EU to allow the extension of the pre-identification mandatory detention of undocumented migrants to 18 months, a practice that was found to violate EU reception directives and human rights standards (ECtHR, 2010). While the legal framework has been subsequently modified, illegal practices are reportedly still being tolerated, including by national and EU authorities. For instance, Malta maintains a singular regime of bank opacity with no equivalent across the EU. Although Malta has not been an offshore jurisdiction since the 1980s, it still provides a haven for companies and individuals who hide behind Malta-registered trusts.

Drawing on these macro features—the economic dependence on transnational flows, the political prominence of informal networks akin to a shadow state, and the jurisdictional exceptionality within the EU—one can sketch out a synthetic mechanism describing how and why Malta provides an attractive haven for organised criminal activities. A few distinctive traits can suffice to make it both empirically salient and analytically manageable:

1) illicit economic flows, which for some reason are prevented from accessing the European market, target Malta as a possible gateway into the EU;

2) the international supply meets the local demand by resource-hungry local political entrepreneurs eager to expand their clientele;

3) opaque transnational holdings set up shop in Malta with high-profile Maltese nationals posturing as fiduciaries in order to ease the licensing and clearance procedures;

4) local strongmen ensure that dubious or extra-legal transactions are protected from interference by law enforcement authorities. The remainder of this article sets out to illustrate the plausibility of the hypothesised mechanism by analysing four different domains of extra-legal economies to which Malta provides a hub: the citizenship-by-investment scheme; the gaming industry; the smuggling of fuel from Libya; and the international money laundering linked to the Pilatus Bank case.

With a view to adequately supporting the claims of a mechanism-focused research (Checkel, 2014), I supply a fine-grained description of the inner dynamics of each case. The evidence discussed largely draws on the systematic collection and analysis of a wide variety of open source information and open source intelligence, understood as “unclassified information that has been deliberately discovered, discriminated, distilled and disseminated to a select audience in order to address a specific question” (Steele, 2007, p. 129). While this data has been triangulated and scrutinized as meticulously as possible, a note of methodological cautiousness is nevertheless warranted. This article does not aim to provide a scientifically certified picture of Malta’s extra-legal economies. Even if it strives for the highest possible degree of accuracy, the identification of hard proof substantiating the media allegations of criminal behaviours is not this research's "Holy Grail". And although the collection of primary data may have contributed to further consolidating the empirical ground of the claims presented herein, one also needs to stress that the sensitivity and proximity of the phenomena investigated risk introducing major informative biases. Moreover, the ubiquitous bureaucratisation of site-intensive research, especially in criminology and cognate fields of study, has seriously constrained ethnographic access (see Peter and Strazzari, 2016). Even beyond one's methodological preferences, then, the reliance on journalistic sources and leaked reports has become inevitable. While the limitations inherent to this research design must be acknowledged, one should also point out that emerging approaches to social sciences—including distant ethnography (Robben, 2010) and digital methods (Rogers, 2013)—demonstrate an increasing interpenetration between the research sources and tools of investigative journalism and academic scholarship. Building on these considerations, the article pays careful attention to the selection and accurate analysis of the sources. Furthermore, interviews and informal discussions with a handful of Maltese informants and regional organised crime experts have helped illuminate the most complex aspects, corroborate unevenly backed allegations, and penetrate the intricacies of Malta's patronage networks.

Building on this analysis, the article concludes by discussing the explanatory power of the mechanism herein hypothesised and puts forward some observations of more general value about the mutual influences between shadow statehood and island-ness that the case of Malta highlights.

Malta's Passports for Sale—a Gateway to Europe

The very successful citizenship-by-investment scheme of Malta provides one of the clearest illustrations of the mechanism introduced above, whereby the attraction of extra-legal economic flows feeds the consolidation of a shadow state. Since his election as prime minister in the March 2013 general election, Joseph Muscat has repeatedly declared his intention to make of Malta a "Singapore in the Mediterranean" (Dalli, 2018). To this end, his cabinet was quick to launch the so-called "Golden Visa" programme, which has been implemented since early 2014 in spite of some initial opposition by European institutions. The programme is a standard citizenship-by-investment scheme, akin to those launched in Caribbean island-states one decade before, that allows wealthy third-country nationals to purchase Maltese citizenship, and therefore *a fortiori* EU citizenship as well. In exchange, Malta requires a conspicuous injection of money into the island's economy, both public and private, of no less than EUR 1.5 million. From its inception to early 2018, approximately one thousand individuals had acquired a Maltese passport in this way (Bonini and Foschini, 2018), including businessmen from Saudi Arabia, Nigeria, China, Russia, Kenya and others, generating an overall income of about EUR 2 billion, i.e. more than 15% of the national GDP. Part of these resources have been reinvested to support Malta's generous welfare and public sector, thereby contributing to expanding Muscat party's political clientele. At the same time, the program's "unique concessionaire"—the Henley & Partners firm, one of the worldwide leaders in this sector—has allegedly skimmed no less than EUR 20 million for its own profit.

From this perspective, Maltese authorities perceive the benefits of the Golden Visa programme to far outweigh the potential shortcomings. Yet critics contend that the programme risks stimulating infiltration of financial crime, money laundering, and tax evasion. To minimise such contingencies, Henley & Partners has subcontracted the work of due diligence out to 167 other law firms. In case of suspicion, these firms can also call on Malta's Financial Intelligence Analysis Unit (FIAU) to investigate the bank accounts and the origin of the applicants' money. Such stringent policies have reportedly resulted in a 20% citizenship application rejection rate.

However, recent investigations suggest that important cases of misbehaviour and irregularities have also occurred. While acknowledging the inherent risks of citizenship-for-investment schemes, FIAU investigations have been triggered in very few cases related to passport applications (European Parliament, 2018). An FIAU report also claims that Keith Schembri, Muscat's controversial chief of staff, had received a questionable 166,000-euro payment from Russian applicants to the citizenship-by-investment programme, raising the suspicion that kickbacks were paid to convince accommodating high-profile officers to turn a blind eye to potential irregularities in obtaining Maltese passports (*ibid*.). The alleged intermediary of this operation was Schembri's accountant, whose desk at the Prime Minister's Office raised further doubts. The individuals involved have publicly justified the suspicious transfer as a repayment of a personal loan that Schembri had given to his accountant when he was separating a few years before. Yet FIAU investigations observed that Schembri's accountant, a well-known businessman in Malta, "appears to be sufficiently wealthy to handle the costs of personal separation proceedings without needing third party funding" (*The Malta Independent*, 2017b). By mid-2018, court investigations into these allegations had yet to start, while Schembri remained a prominent member of Muscat's cabinet (Muscat, 2018b).

Perhaps as a result of these opacities, a number of controversial Russian businessmen managed to obtain a Maltese passport in recent years. These include, *entre autres*, Aleksander Nesis, co-owner of Russia's largest private bank, and whose personal wealth is estimated to be worth almost USD 2 billion; Boris Mints, tycoon of the Group 01 holding and president of the Russian entrepreneurship union; and Arkady Volozh, the owner of the Russian google *Yandex* accused of having illegally shared Ukrainian users' data with the Russian intelligence in order to favour Moscow's military campaigns in Ukraine (Bagnoli, 2018). As the three individuals are reportedly close to Vladimir Putin, Western officers fear that they may abuse their EU citizenship acquired in Malta as a tool to circumvent potential sanctions against them and nullify the latter's impact. As a result, Malta may well become the place where the practices of bank secrecy and citizenship shopping, premised on the commitment to the very Western values of freedom and privacy against government interference—as Carolyn Nordstrom (2007) famously observed—end up colliding with the security imperatives of the West. Yet these subtleties don't seem to worry Maltese politicians, whose careers, according to local observers, have now become "dependent" on the profits of the passport industry (Bagnoli, 2018).

Malta's Gaming Industry—a "Mafia ATM"?

The International Airport in Luqa is the main entrance into Malta. Here, ubiquitous advertisements expose tourists to the importance and magnitude of the gambling industry in the island-state. With four permanent casinos and more than 300 online gambling operators, Malta has become a global hub for betting and gaming, and host to the highest per-capita concentrations of licence-holders in the EU. Gaming took off in 2004, when the government, led by then-Prime Minister Lawrence Gonzi of the Nationalist Party, introduced the first online gaming regulations in the European Union (EU). The decision quickly paid off and generated unprecedented returns: in 2018 the sector was worth EUR 1.2 billion and employed more than 8,000 people on the island, and recent estimates suggest that it contributes to a huge 12% of the island's GDP.

Recent investigations, though, have contributed to exposing the drawbacks of this thriving industry. For, if gaming and casinos are known to attract illicit profits by providing major opportunities of money laundering, online gambling has a possibly even worse reputation, having been equated to "an ATM with a continuous cash flow" allowing for "cash to be withdrawn for the needs of the [Mafia] clans" (Civillini and Anesi, 2018a). Typically, in fact, online gambling ensures traceability by linking players' accounts to online payment systems. However, bets and payments in cash remain widespread and widely tolerated, albeit theoretically illegal. The use of fiduciaries provides another avenue to circumvent regulations and controls. As a result, recent inquiries of the Prosecutor of Palermo have revealed the extent of the ties between Italian organized crime and Malta's gaming industry. Taking advantage of the laxity of the regulations, several infamous organised criminal gangs in southern Italy have used Malta-based online betting companies as a gateway to gain control over the gambling sector on their respective turfs (Civillini and Anesi, 2018a). The gambling racket has allegedly generated very conspicuous (illicit) profits for the clans, up to tens of millions of euros per year.

In theory, Maltese oversight institutions such as the Malta Gaming Authority (MGA) are entrusted with the responsibility to scrutinize applicants prior to granting licences. In practice, though, the criminal-political-family collusions underpinning Malta's patronage politics have frequently interfered with the quest for transparency and accountability in the gaming industry, with high-profile individuals posturing as fiduciaries because of their vested interests in this business. As a case in point, until 2016 David Gonzi, the son of the former Maltese Prime Minister who first introduced online gaming in Malta, was among the shareholders of the trust holding the betting society controlled by Matteo Messina Denaro, the boss of the bosses of the Sicilian mafia. Similarly, a system of revolving doors between private and public entities has resulted in several former MGA officials starting to work as private consultants in the online gaming sector. A prominent case is that of Anthony Axisa, who knows well all the intricacies and weak points of the national online gambling regulations introduced under Gonzi, having contributed to their drafting and subsequently to their enforcement as a senior MGA officer. Axisa reportedly worked for the online betting company secretly owned by the 'ndrangheta boss Francesco Martiradonna. Originally operating out of the United Kingdom, the company lost its British licence in 2009 as a result of money laundering charges issued by Italian prosecutors. Soon thereafter, though, Martiradonna's company readily obtained a gaming licence from the MGA and started operating from Malta with no further inquiries from Maltese authorities (Civillini and Anesi, 2018a).

In early 2018, the Court of Palermo issued several arrest warrants targeting criminal organisations operating in the gambling sector with ties to Malta. Immediately thereafter, the MGA suspended the operating licences of the main companies involved, and announced the beginning of its own investigation. In spite of this prompt reaction, questions have been raised about the actual impact of such measures. According to media reports, Matteo Messina Denaro's company continued to operate undisturbed for months out of its state-of-the art headquarters in Malta's gambling district, and the withdrawal of the formal authorisation did not trigger any action by law enforcement agencies (Civillini and Anesi, 2018a). Martiradonna's betting platform, instead, halted its operations, but the company's assets remained active and were not seized. This prompted Italian authorities to send an urgent request to Malta's attorney general to take action given "the risk that the assets can be transferred or hidden from possible confiscation" (Civillini and Anesi, 2018b). Maltese authorities' reluctance and lack of cooperation brought Nicola Gratteri, the anti-mafia prosecutor who led the Martiradonna investigation, to voice his frustration publicly during a hearing of the anti-mafia committee of the Italian Parliament. According to the prosecutor: "it is hardly conceivable that a country so close, with whom we have such friendly relations, is not answering us. […] It is easier to work with Peru or Colombia than with Malta" (Lo Re, 2017; Anesi and Civillini, 2018). These observations emphasise that the lack of proactiveness by Maltese authorities amounts less to a technical problem, than to a political choice, and hint once more at the network of informal collusions structuring Malta's governance. Arguably, this network is precisely the main infrastructure enabling the entanglement of the licit and the illicit, the legal and the extra-legal, within Malta's political economy.

Malta as a Fuel-Smuggling Hub

Malta is strategically located at the crossroads between resource-starved southern Europe, and resource-rich North African states—with Libya and Algeria being respectively the first oil and natural gas producing countries in Africa. Yet, due to its isolation, Malta has been largely bypassed by the main infrastructures connecting North Africa to Europe via Italy, including pipelines, major commercial ports and storage facilities. The collapse of the Gaddafi regime has contributed to drastically changing this situation, by paving the way to major flows of fuel smuggling connecting Libya to Europe, via Malta.

Since regime change in Libya in 2011, international regulations and UN resolutions (including UNSCres 1970(2011), UNSCres 2009(2011) and UNSCres 2146(2014)) banned all oil and fuel exports from Libya unless authorised by the local National Oil Corporation (NOC). However, these restrictions, combined with poor law enforcement and institutional capture in Libya, provided new opportunities for a thriving activity of petrol and fuel smuggling. Illicit flows initially targeted the domestic demand and neighbouring African states. According to recent investigations, though, Malta has progressively become a logistical hub where fuel smuggling cartels can operate with impunity in order to access the much larger and profitable European market. This section describes how this came about, by providing an overview of how Malta-based smuggling networks developed and functioned.

The Libyan town of Zawiya, 50 km west of Tripoli, hosts the only oil refinery in western Libya, and one of the few in the entire country. By the end of the Libyan revolution, in 2012, the Petroleum Facility Guards (PFG)—NOC's armed branch—appointed a local militia, the Al-Nasr brigade, to protect Zawiya's oil facilities. Such co-option amounts to a well-established mechanism in the redefinition of the post-2011 Libya security apparatus (Akl, 2017), and soon thereafter the Al-Nasr brigade and Zawiya PFG became virtually indistinguishable (Eaton 2018). Taking advantage of the control over the Zawiya refinery, the Al-Nasr brigade became increasingly enmeshed in the smuggling of fuel, that it obtained more or less forcibly from the refinery at a discount price of less than 0.1 USD/l and sold on the black market with a significant markup (UNSC, 2018).

The export of heavily subsidised Libyan fuel abroad, albeit illicit, allowed even higher profit margins, and soon the Zawiya-based smuggling networks stretched westwards to reach the Tunisian border. Smuggling across the Libya-Tunisia border had long been a well-established practice, but the collapse of the Libyan security apparatus gave it a dramatic boost. In this context, the westernmost town of Zuwara increasingly became a hub of regional fuel smuggling. Strategically located at the border with Tunisia, Zuwara represented a mandatory stop-over for illicit fuel export. Moreover, Zuwara's harbour enabled the shipment of fuel tankers by sea, allowing to stretch fuel smuggling beyond regional markets and across the Mediterranean. Illicit fuel shipment by sea has become even more predominant since 2015, when Abdurahman Milad 'Al-Bija' came back from his hospitalisation in Germany and took the head of the Zawiya Coast Guard. Milad reportedly established a strong partnership with the Al-Nasr brigade by enforcing the protection of the smuggling of oil and migrants in Zawiya (Stocker, 2017; UNSC, 2018). With the consolidation of these networks, fuel smuggling proved so thriving that its profit margins could overcome and replace those of other illicit trafficking: according to the Libyan Audit Bureau, around 30% of the subsidised Libyan fuel is smuggled, generating an aggregate turnover that is two to four times higher than that of human smuggling across all Libya (Eaton, 2018). One could also read in this light the decision by Zuwaran authorities to curtail migrant smuggling from Zuwara's coast since summer 2015: fuel smuggling provided by then a safer, more profitable and less morally controversial economic activity, one that by the way escaped the increasing pressure of the international community against migrant smuggling. According to recent reports, today one can find in Zuwara at least 30 unofficial oil depots, 20 networks and 70 ships full-time dedicated to fuel smuggling, generating employment opportunities for at least 500 people (UNSC, 2018).

The rise of Zuwara as a regional hub of fuel and oil smuggling coincides with that of Salim Ben Khalifa Fahmi. A native of Zuwara, Fahmi was a drug trafficker during Gaddafi's era, who after the revolution became known as "the King of Oil Smuggling", or "the Boss", while the port of Zuwara was sometimes referred to as "the port of Fahmi" (Eaton, 2018; UNSC, 2018). According to Italian prosecutors, he was the Libyan terminal of a sophisticated transnational fuel smuggling network connecting Zawiya, Zuwara, and southern Italy, pivoted in Malta. Since at least 2014, in fact, small tankers belonging to a society controlled by Fahmi left Zuwara's harbour loaded with smuggled fuel, headed to Malta and turned off their transponders in the proximity of Maltese territorial waters. Here, they were approached by small vessels flying Malta's flag, onto which the fuel was transhipped to conceal its Libyan origin. Subsequent investigations demonstrated that the Maltese vessels belonged to Darren Debono, a former football player of the Maltese national team who, at the end of his career, had turned his lifelong hobby of fishing into a lucrative business with the purchase of a small fleet. Darren Debono had also created a bunkering society trading ships' fuel supplies. This was a joint venture with an Italian partner, Nicola Orazio Romeo, a fish trader from Sicily reportedly involved in the racket of fish markets around Catania alongside the local mafia. From their headquarters in Malta, Debono and Romeo illegally purchased smuggled fuel from Libya, and redistributed it to southern Italy and across the rest of Europe, generating an alleged income that according to Italian prosecutors exceeded 30 million euros. The tremendous profitability of such business unsurprisingly triggered jealousies and competition, and between late 2016 and early 2017 no less than 5 car bombings killed Maltese "fishermen" allegedly involved in fuel smuggling.

However, even beyond, and before, the outbursts of criminal violence, evidence was not in short supply to indicate the existence of a transnational network of fuel smuggling operating from Malta. Since 2016 at least, media, Libyan authorities and UN reports had explicitly cited Debono's and others' active participation in the transfer of thousands of litres of smuggled fuel from Libya to Malta, openly violating UN resolutions (see UNSC, 2016). And in January 2017, Libya's attorney general declared that the smuggling of Libyan fuel by the "Maltese mafia" was an open secret hiding a daily reality, thereby calling for more collaboration from the Maltese authorities (Camilleri, 2017a).

In a situation of civil unrest, criminal capture and institutional fragmentation, it is hardly surprising that Libyan authorities faced huge challenges in the curtailment of these illegal conducts. At the same time, though, it is striking to notice Maltese authorities' lack of proactiveness in clamping down on illegal activities directly fuelling one of the most serious security crises in Europe's neighbourhood. Maltese fishing cooperatives complained not only that Debono's ship-to-ship transfers happened undisturbed, but that vessels were allowed to dock at the bunkering facilities without being checked by the local authorities, including the customs department (*Times of Malta*, 2018). It is tempting to attribute this to an environment of criminal-political-family collusion prevailing in Malta, of which Debono was part. Indeed, Malta's Prime Minister Joseph Muscat was reportedly a regular customer of Debono's restaurant in Valletta, and the daughter of Debono's partner was the protagonist of one of Muscat's Labour Party campaign ads in 2013. For years, Maltese authorities left Debono undisturbed, in spite of the growing evidence against him. It is only when Debono was found on Italian soil that he was arrested by Italian authorities—two days after Galizia's killing in Malta. But while Italian prosecutors have arguably focused on criminal activities with known repercussions in Italy, such as the Fahmi-Debono-Romeo network, journalistic investigations suggest that other Maltese societies suspected of running oil and fuel smuggling activities with no impact on Italy continue to operate undisturbed (Rubino, Anesi and Bagnoli, 2018), and that Malta had remained a hub of transnational oil smuggling from Libya well into 2018 (Bonini, Foschini and Tonacci, 2018).

Opaque Transactions and Money Laundering in Malta

Since the publication of the so-called Panama Papers in April 2016, Malta has been in turmoil due to the allegations of high-level corruption and money laundering involving key officials within the Maltese government. Subsequent inquiries led by journalists, including Galizia, and European MPs have brought to light further revelations and documents suggesting an even more impressive picture of the entanglements between illicit transnational flows and Malta’s shadow governance.

In 2013, only days after having secured victory at the Maltese general elections, high-level officials of the governing Labour Party began to be enmeshed in opaque activities, including the set-up of offshore trusts and companies in New Zealand and Panama. Early that year, the Prime Minister Muscat, his chief of staff Keith Schembri, and the then Minister of Energy Konrad Mizzi paid a state visit to Azerbaijan, officially aimed at agreeing a deal on fuel supplies. Subsequent investigations led to the disclosure of many problematic aspects of that deal. Without a public tender, Malta accepted to pay more than EUR 1 billion to import all the LNG (liquefied natural gas) needed to supply its power stations for the next 10 years from Socar, Azerbaijan’s state-owned oil and gas company. It is noteworthy, though, that while Azerbaijan is a major oil and gas producer, it does not produce LNG, and Socar had no specific experience in that sector. As it turned out, Socar had to purchase the LNG from Shell and sell it on at a profit to Malta’s Electrogas (*The Malta Independent*, 2018), which in turn supplied the state-controlled grid operator Enemalta. As a result of this convoluted chain, Malta had to pay nearly twice as much as the open market rates (Garside, 2018). Maltese authorities, and Mizzi in particular, subsequently provided some clarifications on the most controversial aspects of the deal. According to their reports, advice from top international specialist consultants recommended the outsourcing of the whole gas supply chains due to Enemalta’s poor performances; the deal, overlooked by the European Commission, focused on the construction of LNG facilities, with the inclusion of gas supplies for which there was no separate public tender; fixed prices were agreed to ensure security of supply and price stability, and Malta could not have reasonably foreseen the sustained oil and gas price crash that occurred after the deal was concluded (Garside, 2018).

Although there was no evidence of explicit wrongdoing by any of the parties involved, the opacity of the deal, the lack of public information and the surprising preferential treatment given to the partners from Azerbaijan call for further elucidation. The analytical framework discussed in this article may provide some helpful guidance in this respect. As the Panama Papers investigations subsequently revealed, in fact, the Azerbaijani ruling family allegedly rewarded the cooperative attitude of the Maltese delegation with significant kickbacks, which were transferred from Azerbaijan to shell companies registered in Panama and Dubai in the names of Schembri and Mizzi, either directly, or through frontmen and family members (Harding, 2017). Even more importantly, Azerbaijani elites were given complete free hand to operate from a private bank based in Malta, named Pilatus Bank. For instance, Azerbaijani billionaire Mu?bariz Mansimov was found to be linked to over 100 Maltese companies as part of his Palmali shipping group, while a Maltese shell company contributed to housing the financial interests of Azerbaijan's largest mobile phone business, owned by the daughter of the President of Azerbaijan (Muscat, 2018a). It should be stressed that the regime of President Aliyev had experienced tense relationships with European countries, especially after the so-called "caviar diplomacy" scandal revealed that between 2012 and 2014 Azerbaijan's rulers had invested almost USD 3 billion of slush funds (i.e., almost a staggering USD 3 million a day) to buy influence in Europe, including parliamentarians' votes against human rights criticism of Azerbaijan at the Council of Europe (Transparency International Secretariat, 2018). When Pilatus Bank set up shop in Malta in 2014, i.e. under Muscat's government, the possibility to operate from within an EU member state provided a gateway to conceal the secret financial investments of the Aliyev family all across Europe. As subsequent inquiries pointed out, the assets allegedly held by the Aliyevs through companies that were customers of Pilatus Bank included luxury hotel properties in Dubai and Georgia, worth more than USD 70 million; mansions in London and in Spain; French manufacturers; and the Gilan Holding conglomerate, one of the most important multinational corporations in Azerbaijan (Garside and Kirchgaessner, 2018). As a result, while Azerbaijani oligarchs felt confident enough to consider Malta as "one of our provinces" (Freedom Files Analytical Centre, 2017), Mizzi could boast of the fact that his government's initiatives had attracted hundreds of millions in new investment from foreign corporations and banks (Garside, 2018).

All these dealings had remained unknown to the Maltese public and the rest of the world until the Panama Papers investigations brought them to light, in April 2016. The documentation made available by the Panama Papers leak immediately triggered the action of the FIAU, which less than a month later produced a report highlighting serious money-laundering concerns. The FIAU report underscored the fear of possible irregularities in the process leading to the granting of the operating licence for the Pilatus Bank, alleging that it might have had been speeded up with the help of Muscat's chief of staff, Keith Schembri (European Parliament, 2018). It also pointed out that Pilatus Bank had showed a "glaring, possibly deliberate disregard" (Kirchgaessner and Garside, 2018) for money-laundering controls, emphasising that the bank had failed to collect "enough evidence of the source of fortune" from its customers, in spite of the fact that these included a large number of politically exposed companies or persons from Azerbaijan (Patrucic *et al*., 2018). According to its mandate, the FIAU submitted the report to judicial and law enforcement authorities in Malta for further consideration, recommending the police to launch a proper investigation.

Under Maltese law, in fact, the national police commissioner has the final say over whether or not to prosecute in cases relating to money laundering submitted to his attention. Yet, soon after receiving the FIAU report, Malta chief police commissioner Michael Cassar hastily resigned for unspecified health reasons (Borg, 2018a). He was immediately replaced by Lawrence Cutajar, who on social media had openly shown support for the incumbent Prime Minister Muscat (Galizia, 2014). Indeed, the EU Parliament Commission visiting Malta has highlighted the anomaly whereby the Prime Minister has the authority to directly appoint key judicial and law enforcement officers, including the chief police commissioner and the attorney general (on this, see more recently Council of Europe 2018). This has led in recent years to frequent changes and replacements that may have had more to do with political reasons than with operational needs (European Parliament, 2018). And in fact, in spite of the recommendations of the FIAU report, in the subsequent months neither proceedings nor investigations were initiated by Maltese authorities on this case. As a result, soon thereafter the FIAU director, too, resigned. And in September 2016 the new director certified in a letter to the Pilatus Bank its compliance with Malta's anti-money laundering obligations, openly contradicting the previous remarks of the same agency (European Parliament, 2018).

While it seemed that the institutional collusions of the Maltese authorities had succeeded in burying the case, a few months later the parallel investigations by Galizia brought back to the attention of a wider Maltese audience the allegations of secret corrupt deals involving the country's ruling elite and pivoted in the Pilatus Bank. As soon as it was published on Galizia's blog, the story, alleging that the wife of the prime minister was the ultimate beneficial owner of the third Panama account alongside those of Mizzi and Schembri, immediately turned into a major national scandal generating disquiet and outrage, which prompted a crisis as well as a general election in June 2017, nine months before the end of the government's mandate and during Malta's EU presidency.

In a highly suspicious move, the bank's owner was filmed hastily leaving the premises of the bank, carrying mysterious bags of documents only about an hour after the allegations were published on Galizia's blog (*Hetq*, 2018). At 4 am next morning, a mysterious chartered flight with no passengers flew from Malta to Baku, then flying on to Dubai (*The Malta Independent*, 2017a). These developments prompted the attorney general to initiate a magisterial inquiry. Incidentally, he requested subsidiary bodies such as the FIAU and the MFSA (Malta Financial Supervisory Agency) to hold back in order to avoid interference and overlapping. In June 2017, the FIAU's Head of Compliance Charles Cronin and investigator Jonathan Ferris were both fired during their probationary period (Borg 2017), while the police started an investigation on the whistleblower Maria Efimova who had shared confidential information on the Pilatus Bank with Galizia. And while Maria Efimova sought refuge in Greece, in July 2018 the magisterial inquiry concluded that many of her allegations were not backed by proof, suggesting in particular that it found nothing to demonstrate a linkage between the Muscat family and the Pilatus bank (Borg, 2018b).

The readiness of law enforcement agencies in this case contrasted sharply with the lack of proactiveness to prosecute high-profile offenders accused of money laundering. At the same time, very little was done to protect local journalists and activists, like Galizia, from credible threats to their security. And when Galizia was killed in October 2017, it raised speculations that her killing was also linked to the unprecedented impact of her reports on these sensitive topics.

Conclusion

The dynamics illustrated above provide quite a telling illustration of the linkages between extra-legal transnational flows and shadow state governance which have prevailed in Malta over the last 15 years at least. Even more importantly for the present discussion, they back up the mechanism herein analysed with extensive empirical material, and therefore contribute to corroborating the robustness of the hypothesised explanation. All the four cases, in fact exhibit, significant structural similarities matching the factors singled out in the introduction:

- illicit economic flows that are prevented from accessing European markets, including the revenues of Russian or Azerbaijani oligarchs; the proceeds of the Italian mafia; and the fuel smuggled from Libya;
- the capture of such extra-legal economic resources as a way to boost the power of local rulers, including through the provision of public services, welfare and jobs;
- the resorting to Maltese intermediaries well-connected to the local economic and political establishment, such as Schembri, Gonzi, Mizzi and Debono, acting as the interface between the outside supply and the internal demand of capital; and
- the systematic political interference with law-enforcement authorities in order to shield these transactions.

These observations demonstrate the inaccuracy of labelling Malta a “mafia-state” exposed to the risk of criminal capture. This conceptualisation doesn’t seem well attuned to Malta, for at least two reasons. In first place, it perpetuates a series of faulty discontinuities between the realm of ‘normality’ and that of ‘criminality’ that scholars of organised crime have long contested (Levi 2002; De Boer and Bosetti, 2015). The case of Malta attests that, far from being an external conspiracy, the progressive rooting of opaque networks devoted to extra-legal activities has been actively favoured, rather than resisted, by elected politicians, and it is now deeply intertwined with the socio-political fabric of the country. Secondly, against Naim’s mafia-state model expectations, the extent of the illicit and of the illegal does not make of Malta a “failed state”. On the contrary, it contributes to its bright economic performance, dragging a spectacular growth with positive social externalities. Since its accession to the European Union in 2004, and to the Euro area in 2008, Malta has experienced steady economic growth, with peaks well above the European average. In spite of its lack of natural resources and limited manufacture base, in the last few years Malta’s GDP has progressed to a pace which dwarfs that of its southern European neighbours, with record-low unemployment rates and budget balances in constant surplus.

Interestingly, Malta’s achievements run counter to the expectations of influential scholarship on shadow states, too, which argue that shadow states emerge and thrive “in the wake of the near total decay of formal state institutions” (Reno, 1995, p. 1) and are conducive to conflict, civil wars and state collapse (Reno, 2000). None of this is apparent in Malta. Instead, what the case of Malta exhibits is that formal state institutions and informal networks are intertwined and sustain each other. This cross-fertilisation allows patronage politics to proliferate and thrive in correlation—and not in opposition—to a modernising pathway, making of Malta’s peculiar shadow statehood an interesting case of hybrid political order (Albrecht and Wiuff Moe, 2015). The focus on hybridity, then, provides the analytical lenses to expose the “dark-side” (Tuathail and Luke, 1998) of Malta’s success story, and suggests that the profits derived from extra-legal activities arguably account for a significant share of the spectacular economic achievements of the last few years.

From this perspective, it is hardly surprising that the securitization (Buzan, Wæver and de Wilde, 1998) of organised crime in Malta is essentially put forward by transnational actors, including activist networks, the European Union, Europol, or the Financial Action Task Force (FATF). By contrast, national actors, including most notably economic and political elites, seem to look at the proliferation of victimless forms of crime such as money laundering and fuel smuggling less as a threat than as an opportunity, and have thus far failed to include organised crime among the main threats to Malta’s national security.

Drawing on the conceptual framework of this article, then, one can conclude that the disregard for the threat of organised crime in Malta is not only a matter of controversial choices by self-absorbed political actors, but is also deeply intertwined with Malta’s island-ness. By adopting a regional security point of view (Buzan and Waever, 2003), one may be tempted to say that Malta’s isolation has contributed to diminish the significance of systemic threats, such as organised crime, in the security perceptions of domestic actors. On the other hand, Malta is surrounded by waters, and its geographic position suggests that the island-state’s main security concerns are likely to be articulated in terms of maritime security. Yet the most salient iterations of this concept, no matter how broadly defined, fail to encapsulate organised crime as a relevant dimension (Bueger, 2015).

As this article has argued, the embeddedness of extra-legal economies in Malta’s socio-political fabric is the outcome of both structural features are local agency. Human geography, political choices and strategic opportunities equally concur to bring about such an outcome. The perpetuation of a thriving extra-legal realm fostered by a hybrid governance may end up making of Malta not so much a mafia-state, but rather a corrupting island in a corrupting sea.

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