

POLICY BRIEFING

Egypt - a strategic partner for the EU

Abstract

In the most populous Arab nation, Egypt's newly elected officials are working to recapture their country's old role of regional leader, tarnished under the previous regime. The country's political and economic potential is still constrained by the complexity of its transition from authoritarian rule to democracy. After decades of government largely influenced by the military, a new era of political leaders are seeking their political direction. These politicians— for the most part Islamists — enjoy a clear mandate, garnered in a series of free and fair elections.

It is essential that the political transition process continue, and that new democratic institutions be established. Egypt's fledgling democracy must be consolidated in a new constitution, also approved by the Egyptian people. Fundamental human rights and the equality of all citizens must be guaranteed, and economic growth jump-started.

The EU is Egypt's first trading partner, and the EU would benefit from a greater political alliance with Egypt. Egypt's success in mediating a cease-fire between Hamas and Israel has underscored its role as a principal power in a region profoundly altered by the Arab Awakening. Egypt is a strategic partner for the European Union, and the Union should assume a more palpable presence in the country, deepen its political dialogue and support Egypt's democratic transition and socio-economic development.

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1. Internal political situation

1.1. Democratic debate and elections that matter: new features of Egyptian politics

Across Egypt, Islamist parties — the moderate Justice and Freedom Party (JFP) and the more radical Salafist al-Nur party — overwhelmingly triumphed in last winter's parliamentary elections. The elections were assessed as democratic and fair, and it has been widely recognised that they reflected the will of the people. In the spring, the JFP's candidate, Mohammed Mursi, won the presidential election, becoming the first democratically elected president in the history of Egypt. The secular parties often suffered from factional in-fighting and scored badly in both elections. The National Democratic Party's candidate for the presidency, the former prime minister under President Mubarak, made it to the second round of the elections, demonstrating that voters found few viable alternatives among the emerging secular political parties. To a large extent, the results reflect the failure of non-Islamist parties as much as the triumph of Islamist ones: **the secular parties appeared divided, elitist and out of touch with the people's concerns**. This was particularly the case in rural areas and in urban areas populated by lower middle class and working class citizens¹.

Egyptians found few viable non-Islamist alternative parties among the emerging secular political parties.

In June 2012, a series of events cast a shadow on Egypt's democratic transition. The two most powerful forces in the country — the military establishment (SCAF) and the leading FJP — moved toward a confrontation. A speedy series of measures by the military and its allies in the judiciary left many observers wondering whether a subtle military coup or even a counterrevolution was taking place². The lower house (**People's Assembly**) of the Parliament, elected some months before, was **dissolved** by court decision on 14 June, two days before the second round of presidential elections. The judges issuing the ruling, who had been appointed by the former President Hosni Mubarak, claimed that they were upholding the secular Egyptian state, which was under attack by the new elected political leadership. Given the country's transitional situation — with power being transferred and a new constitution in the process of being drafted — such a ruling appeared at odds with Egypt's new democratic processes.

Surprisingly, the military junta (SCAF) did cede legislative powers to the newly elected President after his inauguration on 30 June. Mursi currently runs the country by **presidential decree**, as there is no parliament in place. New parliamentary elections are scheduled for early 2013, after the

¹ Marina Ottaway: Slow return to normal politics in Egypt, Carnegie Endowment for International Peace, 26 October 2012

² <http://www.guardian.co.uk/commentisfree/2012/jun/15/egypt-dissolution-parliament-counter-revolution>

new constitution is in place. President Mursi's position as the most powerful figure in Egypt was confirmed in August, when he forced the retirement of Field Marshal Mohamed Hussein Tantawi, the powerful Defence Minister and SCAF Chair Sami Anan, the Chief of Staff of the army and several senior generals.

In the **absence of a formal democratic forum** such as a parliament, the streets seem to have become Egypt's chief venue for expressing political views and advancing political causes. Particularly those political groups that feel underrepresented demonstrate to express their disagreement with the direction of Egyptian politics. However, protesting in the street remains risky in Egypt. Violence between secularists and Islamists has become more and more frequent, with both sides losing out. Many secular activists argue that the current Islamist leadership of Egypt only represent a well organised minority. Yet this view seems difficult to maintain, given that the two main Islamist political parties won 70 % of the seats in the parliamentary vote, and that Mursi won the support of a majority of Egyptians in the second round of presidential elections.

New parliamentary elections are scheduled for early 2013.

1.2. The Constituent Assembly enters the final phase

Egypt's Constitution of 1971 confirms the principle of separation of powers between the legislative, executive and judicial branches. The Constitution was amended in 1980 to promote the concepts of human rights, freedom of individuals and the rule of law. Article 2 of the Constitution states that Islam is the state religion, Arabic the official language and **the principles of the Islamic law (*shari'a*) the main source of legislation.**

Drafting the new constitution has been complicated by conflicts between secularists and Islamists on the role religion plays in the new constitution.

Drafting the new constitution has been complicated by conflicts between secularists and Islamists. Several members of the Constituent Assembly (الجمعية التأسيسية المصرية) charged with drafting the new text have abandoned their seats or threatened to do so on several occasions in protest of the body's working methods. There have also been legal impediments. On 23 October 2012, an administrative court declined to rule on the legality of the Assembly after secular critics blamed the Assembly for being unrepresentative and too heavily dominated by Islamists. The **administrative court's decision** referred the case to the Supreme Constitutional Court, which is unlikely to rule rapidly. The draft constitution will probably be ready — and may even have been adopted by referendum — before a definitive ruling is issued.

Yet disputes about several articles in the draft constitution³ have raised doubts about whether members of the Assembly will have the document ready by the 12 December deadline. It has been an uphill battle to finalise the work of the Assembly. In the last few weeks, several members —

³ <http://dostour.eg/>

prominent secular politicians and representatives of the Egyptian Centre for Women's Rights, the Egyptian Journalists' Syndicate and the Coptic, Catholic and Armenian Apostolic churches — have withdrawn from the body in protest of the tight timeline and the likely outcome. These dissenters consider the draft that has circulated detrimental to national unity.

Several articles in the proposed constitution related to the position of the *shari'a* have been rejected by secular political forces and by human and civil rights advocates⁴.

Across the political dividing line, **Islamist political groups**, including the Freedom and Justice Party, the radical Islamist al-Gama'a al-Islamiya and the Salafist al-Nur party announced on 30 October that they would form a coalition to ensure that Egypt's new constitution is shaped in accordance with *shari'a*. They plan to coordinate within the Constituent Assembly to impede 'a takeover by a minority of liberals'. The group also plans to organise popular movements to support their cause, as they call for *shari'a* to become the 'only source' of legislation.

Drafts of the constitution that have been made public⁵ suggest it will have more Islamic references than the previous constitution. The important and controversial **Article 2**, stating that 'the principles of *shari'a*' are the main source of legislation, has until now remained unchanged. But a new article (Article 221) also spells those principles out in greater detail. **Article 10** has also caused controversy. It would authorise the state to establish institutions to 'safeguard and protect ethics and public morals'.

The **status of women** is another controversial issue. Article 8 of the draft constitution stipulates that 'the state shall guarantee equal opportunity to all citizens', whereas **Article 68** establishes 'equality between women and men in political, cultural, economic and social life [...] without prejudice to the provisions of the *shari'a*'.

Articles 39 and 40 guarantee the freedom of opinion and creativity. However, this freedom is conditional upon the respect Article 38, which prohibits blasphemy.

Under the draft constitution, Egypt would remain a presidential republic. The political forces which advocate the devolution of power to Egypt's regions are concerned about the **centralisation of state authority** in the draft constitution.

The draft constitution suggests that it will have more Islamic references than the previous constitution.

⁴ Claire Talon: En Egypte, la Démocratie se construit par le bas, Le Monde 5.10.2012

⁵ <http://dostour.eg/>

2. Human rights situation

2.1. Overview

Egypt has signed and ratified nine key international human rights instruments, including the International Covenant on Economic, Social and Cultural Rights and the Convention on the Rights of the Child. Yet **the human rights situation in the country is less than laudable, and has not significantly improved since the revolution.** Political uncertainty, the appropriation of political power by the Supreme Council of the Armed Forces (SCAF) for more than a year and the absence of legal framework effectively protecting human rights has hindered post-revolutionary government authorities to adequately respond to human rights violations perpetrated by extremist groups and military and police officers.

Non-governmental organisations (NGOs) monitoring socio-political developments in the country have reported significant human rights violations, including brutal persecutions of protesters and activists, harassment of women who were demonstrating in public spaces and violence against religious minorities, especially Copts. Cases of torture, degrading treatment and punishment, and unlawful methods of repression used by the National Security Sector (NSS) and the police have been recorded by media, despite provisions in the 1971 constitution that outlaw the physical or moral injury of arrested people or detainees⁶.

Amnesty International⁷ reported casualties among migrants, refugees and asylum-seekers who attempted to cross the Sinai Peninsula towards Israel but were fired at by Egyptian security forces or attacked by abusive traffickers. Over the years, Egyptian governments have forcibly evicted people living in slums, aggravating their condition.

Egypt retains capital punishment for ordinary crimes, though it has carried out only one execution in 2011. Last year, however, 123 people were sentenced to death, and the country refuses to sign the Second Optional Protocol to the International Covenant on Civil and Political Rights (ICCPR), which aims to abolish the death penalty.

Finally, evidence of widespread corruption and bribery has been found in Egypt's public service, customs and public utilities sectors by Transparency International. Such practices are likely to exacerbate social tensions between state officials and citizens⁸.

Egypt has signed and ratified nine key international human rights instruments, however, human rights situation in the country is less than laudable and has not significantly improved since the revolution.

⁶ <http://www.hrw.org/news/>

⁷ <http://www.amnesty.org/en/>

⁸ <http://www.u4.no/publications/corruption-trends-in-the-middle-east-and-north-africa-region-2007-2011/>

2.2. Freedom of association and repression of protestors

Since the beginning of the popular uprising in 2011, Egyptian protestors have called for democracy and underlined the peaceful nature of their demonstrations. Protesters have nonetheless faced an unjustified and often brutal use of force by the police, in incidents that were often recorded and posted on the internet. On numerous occasions, the military scattered demonstration participants with live ammunition. According to Amnesty International, the '25 January Revolution' left 840 people dead and 6 000 injured. The SCAF decided to maintain the 30-year-old state of emergency (based on Law no. 162 of 1958), using special courts for trying thousands of civilians.

Protesters continue to face an unjustified and often brutal use of force by the police.

After President Mursi was inaugurated on 24 June 2012, security was made an urgent domestic priority. Nevertheless, according to a report published by The Nadin Centre for the Rehabilitation of Torture Victims, during the first 100 days of Mursi's mandate, more than 10 sits-in were dispelled, 34 protestors died, another 88 were tortured and 7 women were sexually assaulted by anti-riot soldiers. Last July, Mursi established two fact-finding committees to investigate cases of abuse by the police. The first was charged with investigating the abuse of protestors since January 2011. The second was asked to reassess the trials of civilians before military courts and the situation of demonstrators imprisoned by the ordinary judiciary. At the same time, 572 detainees were released. Many Egyptians, however, still believe that the police enjoy impunity⁹.

2.3. Freedom of press and the internet

Article 42 of the Egyptian Constitution guarantees the 'freedom of the press, printing, publication and all media' and bans censorship except during 'times of war'. Nevertheless, during the revolution, the lack of a clear definition of 'times of war' allowed the government to censor television programmes, access customer databases from mobile operators, trace out-going phone calls and monitor social media. Since 1993, when the internet was introduced in Egypt, the government has kept **a tight rein on the net through censorship and restrictive legislation**. The Telecommunications Act of 2003, for example, allowed governmental intervention in the telecommunications operations while ruling the liberalisation of the sector. The law regulates cooperation between the National Telecommunications Regulatory Authority and other authorities for national security purposes.

Freedom of the press has slightly improved since Mubarak's departure; however, the press continues to be restricted by law and practice.

According to Freedom House's 2012 report¹⁰, freedom of the press improved slightly after Mubarak's departure in early 2011. This can be

⁹ <http://english.al-akhbar.com/node/12822>

¹⁰ <http://www.freedomhouse.org/country/egypt>

largely attributed to an increase in independent television stations and other media, although the press continues to be restricted in law and practice. The uprising was cultivated in part by blogs, virtual communities and social networks, despite the government's efforts to restrict them by interrupting mobile communications, blocking websites and arresting activists.

This year, security forces have undertaken new raids and renewed efforts to intimidate bloggers, human rights NGOs activists and journalists. Since President Mursi took office in July 2012, there has been no palpable improvement. In fact, some NGOs have denounced new cases of repression against public criticism.

2.4. Women's Rights

Despite Egypt's ratification of the Convention on Elimination of all Forms of Discrimination against Women in 1981, **women's rights are a major human rights concern in the country.**

In its most recent (2010) report, the UN Committee on the Elimination of Discrimination against Women (CEDAW) reiterated its serious concerns about the persistence of stereotyped and patriarchal practices and legal provisions — including norms in the penal code and personal status laws — that discriminate against women and girls in Egypt. The Committee urged that gender equality be enhanced and that the trafficking of human beings be more effectively combated. Prostitution, including new forms of sexual slavery such as 'tourist or summer marriages' (quite common in Egypt), was mentioned as an issue of particular concern¹¹.

These problems have continued to affect Egyptian women since the revolution; if anything, **violence against women has become more visible**, despite the rise to prominence of a number of Egyptian women activists (e.g. the 2011 Sakharov Laureate Asmaa Mahfouz). Women have been detained by soldiers, beaten and forced to undergo 'virginity tests', as well as subjected to verbal sexual abuse and threats. Following the events, the SCAF decided to amend the penal code, strengthening the legal provisions for sexual harassment and assault.

While violence against women has not stopped in 2012, the government has become more actively involved in the matter. The Minister of the Interior has been charged with investigating more than 1 000 claims of harassment. The government's renewed stringency does not, however, affect cases of domestic violence, spousal rape or honour killings.

Women's rights have yet adequately to be addressed despite the Egyptian authority's new assertiveness in the issue.

2.5. Freedom of religion

Freedom of religion is still

Religious freedom is limited in Egypt. The 2006 judgment of Egypt's

¹¹ <http://www2.ohchr.org/english/>

limited and not fully extended to minor religious communities.

Supreme Administrative Court made a clear legal distinction between 'recognised religions' (i.e. Islam, Christianity, and Judaism) and all other religious beliefs. This ruling effectively de-legitimised and forbade practice of all but these three religions. Members of religious groups not recognised by the Government, e.g. the Baha'i community, Mormons or Jehovah's witnesses, experience personal and collective restrictions. Moreover, a 2008 ruling by Cairo Administrative court interpreted that the Constitution's guarantee of religious freedom is not applicable to Muslim citizens who wish to convert to another religion¹². There is no legal ban on proselytising Muslims, but the authorities restrict such activities.

Egypt's 10 million Coptic Christians represent the most important religious minority in the country. Copts do not see themselves as a cultural or ethnic minority, but as Egyptians whose ancestors embraced Christianity in the first century.

Egypt's Coptic community fears that the anti-Islam film, allegedly promoted by an Egyptian Coptic Christian in the United States, which caused wide-spread outrage in the Middle East in September 2012, will cause violence and discrimination against them. The community is anxious about its future in the post-revolutionary Egypt, as extremist Muslim groups, which remained underground during the rule of Mubarak, have become more active.

The Egyptian penal code includes blasphemy as a criminal offence, and blasphemy cases against Copts have been recorded by human rights observers since the start of the revolution. Cases of sectarian attacks have also occurred¹³, and several churches have been desecrated.

On 4 November, Bishop Tawadros became the new pope of the Coptic Orthodox Church, following the death of the former pope. Tawadros's election occurred at a very difficult moment for relations between the Coptic minority and Muslim majority. Much will hinge on the importance assigned to Islamic law or *shari'a* in the country's new constitution. When the new Coptic Pope called for genuine national unity under Mursi's mandate in November, he also called for an inclusive constitution¹⁴.

3. Recent developments in the Egyptian economy

Egypt's economy remains in

The 2011 revolution took a heavy toll on the Egyptian economy, and ongoing political instability continues to dampen the confidence of investors and potential lenders. The situation has also negatively impacted the country's tourism sector, which represented 5.3 % of Egypt's GDP in

¹² There is a wide variety of viewpoints whether apostasy is permitted by the *shari'a*. The Qur'an itself does not prescribe any earthly punishment for apostasy.

¹³ <http://www.humanrightsfirst.org/>

¹⁴ <http://blogs.reuters.com/faithworld/2012/11/06/new-coptic-orthodox-pope-says-egypts-constitution-must-be-inclusive/>

a fragile state.

Unemployment and inflation are high, and the difficulties of obtaining loans and investments pose roadblocks for Egypt's much-needed economic recovery.

The International Monetary Fund, the US and the countries of the Gulf Cooperation Council

2010¹⁵. (By comparison, industry accounted for 37.5 % of GDP in 2010, agriculture 14 % and the whole service sector 48.5 %.¹⁶) GDP growth dropped from 5.1 % in 2010 to 1.2 % in 2011¹⁷. The rate is expected to rise slightly, to 2.2 % in 2012 and to 3.3 % in 2013¹⁸. It is estimated that once the political scene has stabilised — with a new constitution approved and a new parliament in place — GDP will grow to an average of 6.6 % in 2013-2014¹⁹ and 5.4 % in 2012-2020²⁰.

Other **key economic parameters are weak for the moment**: the inflation rate is high (12.1 % in 2012²¹), and the country's currency reserves were depleted by the Central Bank's 2011 attempt to prevent currency devaluation²². Unemployment is high, although in line with the regional average: Egypt's 12.2 % unemployment rate in 2011 can be compared to Jordan's 12.3 %, Algeria's 10 %, Morocco's 8.9 % and Tunisia's 18 %²³. The currency risk is negative since depreciation with the dollar is expected as a consequence of the depleted foreign currency reserves²⁴, while the sovereign risk is stable²⁵.

After his election in June, President Mursi recognised the need for **international help** to address the country's formidable economic challenges and began renegotiating with the **International Monetary Fund (IMF)** for a loan of USD 4.8 billion, expected to be granted by the end of this year²⁶. On 20 November, the IMF and Egypt concluded a **22-**

¹⁵ See ,[OECD Tourism Trends and Policies 2012](#) p. 356

¹⁶ See [EU Commission DG Trade Website](#).

¹⁷ See [Egypt Country briefing 2012](#)

¹⁸ See footnote 1.

¹⁹ See the Economist Intelligence Unit October 4, 2012 at <http://country.eiu.com/Egypt>

²⁰ See the Economist Intelligence Unit, [Egypt](#) 4 September, 2012

²¹ See IMF data at: http://www.indexmundi.com/egypt/unemployment_rate.html

²² See DG EXPO, Policy Department. Egypt, Country Briefing 2012.

²³ See <http://www.indexmundi.com/g/g.aspx?c=eg&v=74> on CIA World Factbook data.

²⁴ **Currency risk** is the uncertainty about the future value of a currency. See [Business Dictionary.com](#).

²⁵ See the Economist Intelligence Unit, [Egypt](#), 4 October 2012. The **sovereign risk** is the probability that the government of a country (or an agency backed by the government) will refuse to comply with the terms of a loan agreement during economically difficult or politically volatile times. See [Business dictionary.com](#)

²⁶ See [New York Times](#) 4 September, 2012.

²⁷ See [all Africa 20 November, 2012](#)

²⁸ See [EU Commission DG Trade Website](#) .

²⁹ See Eu [Neighbourhood Info Centre](#) 12 September 2011.

³⁰ See EBRD website, 24 October 2011, <http://www.ebrd.com/pages/news/press/2011/111024b.shtml>

³¹ See the [Daily Star Lebanon](#), October 1, 2012.

³² ibidem

³³ In any case fight to corruption, widely common under the previous regime, is still an issue and the government is expected to deal with it even through social measures like minimum wages. See [Chatham House 2011](#) and [New York Times](#), 4 September, 2012.

³⁴ See Oxford Analytica "[Egypt fuel subsidy reform will take years](#)", 10 October 2012.

³⁵ See the [Economist Intelligence Unit](#) Sept 19 2012.

countries are ready to provide loans.

The EU (including the European Investment Bank and the European Bank for Reconstruction and Development) are prepared to launch new projects.

The IMF made its loan conditional on Egypt's removing energy subsidies.

month 'Stand-by Agreement' aimed at supporting the government's programme for the 2013-14 fiscal year²⁷. This agreement needs approval by the IMF Executive Board in the next few weeks. Moreover, the **US** forgave USD 1 billion in debt (of the outstanding USD 3 billion in loans) and offered USD 375 million in loans to US companies willing to invest in Egypt and USD 60 million to new Egyptian enterprises. Qatar and Turkey each promised new loans of USD 2 billion, and China promised USD 200 million..

The EU has various offered various forms of assistance. The Union is working to boost Egypt's economic and political transition with programmes within the **European Neighborhood Policy** (ENP). The action plan for 2011-2013, has allocated EUR 449 million²⁸, with three priority areas (*For more information on these, see Section 6.*):

1. supporting Egypt's reforms in the areas of democracy, human rights and justice;
2. developing the competitiveness and productivity of the Egyptian economy;
3. ensuring the sustainability of the Egyptian development with better management of human and natural resources.

Additionally, the **European Investment Bank** will support the EU's stabilisation policy in Egypt, while providing the country with USD 3 billion in loans in 2013, earmarked for projects that will create jobs and opportunities for SMEs; examples of such projects include developing public transport for secluded zones, social housing, urban development, energy and the environment²⁹.

The **European Bank for Reconstruction and Development** (EBRD) also declared in late 2011 that it was prepared to launch Egyptian development projects worth up to EUR 1 billion³⁰. In fact, by the fall of 2012, the EBRD had launched projects in Jordan, Tunisia and Morocco, but those in Egypt had been delayed by political instability³¹.

Loans from countries and organisations, expected to total USD 14.5 billion, are expected to 'reduce the large budget sector deficit from almost 11 % in 2011/12 to 8.5 % of GDP in 2013/14'³². By reducing interest rates and public debt, and by increasing currency reserves, Egypt's economy will hopefully benefit.

While technical negotiations with the IMF are deemed to be concluded, it is now clear that the Fund's loan is conditional. When the IMF began discussions with the Egyptian military in late 2011, only two general conditions were placed on its loan (then valued at USD 3 billion): that the funds be used transparently and that legislation be passed to prevent conflicts of interest from developing. Clear conditions were supposed to be defined after the shaping of an agreed middle-term macroeconomic framework as required by IMF. After Mursi was elected, he initially rejected the IMF offer, as the institution was perceived as having supported the

previous regime. Discussions were reopened on a different basis, with a new proposal involving a larger loan (USD 4.8 billion), dependent on strengthening transparency in public financial management, registration and licensing procedures. Moreover Egypt is requested to raise revenues through a fiscal reform and to cut budget wastes, primarily through the elimination of **energy subsidies**³³.

Egyptian energy subsidies are believed to distort the prices of goods within the country and to have brought public deficit to an alarming level — 11 % of GDP in 2012³⁴ since they cost the Egyptian government EGP 95 billion (EUR 12 billion) in 2011-2012. Since the revolution, the country has experienced a number of power cuts and fuel shortages. It is, however, the **market of natural gas** for industrial use that has suffered the most: Egypt, which was once net exporter of natural gas, now risks becoming a net importer. Until now, oil companies have been forced to sell all extracted liquid natural gas to the government at a capped price — a constraint that has impeded new investments the sector so affecting the gas supply and the energy needs of Egyptian companies. Even by cutting its gas supply to Israel — which in fact involved limited quantities — Egypt risks shouldering the additional burden of gas import unless domestic gas production is boosted. The solution publicly announced by president Mursi entails allowing oil companies to sell their gas production to customers other than the government, thereby generating income to invest and exploit reserves. While subsidies will ultimately be cut, the country's poorest people will receive coupons or personal smart cards' in compensation.

Attracting **foreign investment will require social and political stability**. With greater stability, the Egyptian economy would be poised to profit from public-private partnerships (PPPs) for key infrastructure projects. Examples include Cairo's new waste water treating system and the Cairo - Alexandria highway link³⁵. PPPs have been shown in the past to effectively marry public and private resources; they offer the possibility of launching huge infrastructure projects as early as 2013. However, these projects, if badly managed, risk boosting inflation. Because raw materials and machinery are mainly imported, unsuccessful projects also risk worsening the country's trade balance.

Foreign investments and public-private partnership require political and social stability.

4. Foreign trade issues

Trade deficit with the world, trade surplus with the EU.

The deficit of Egypt's **trade balance** with world grew from EUR 8.4 billion in 2010 to EUR 11 billion in 2011³⁶. Yet the country's trade balance with

³⁶ The deficit worsened substantially from its 2006 data levels, when it was EUR 2.969 million. See [IMF data](#) (converted into Euro).

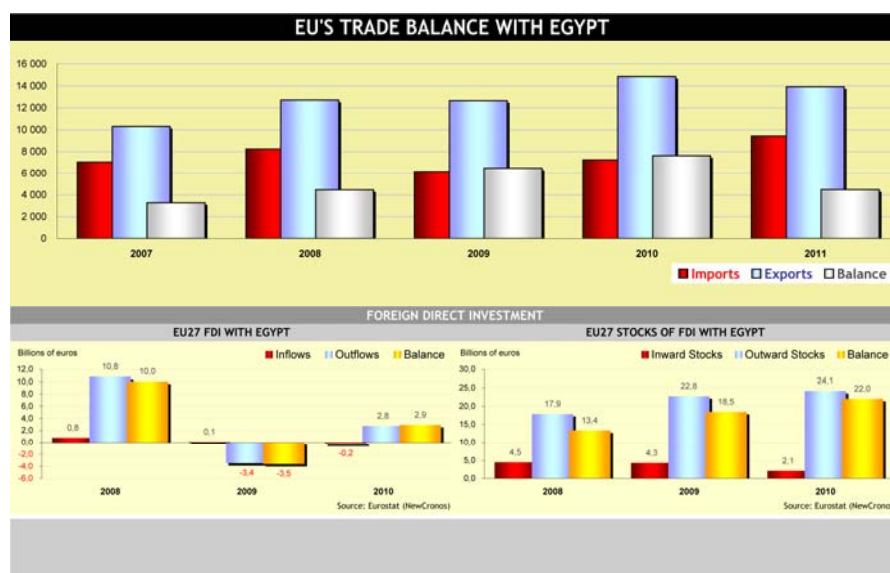
the EU actually improved over the same period, shrinking from EUR 7.6 billion in 2010 to a more modest EUR 4.5 billion in 2011³⁷. In trade in **services**, Egypt registered a clear surplus in 2010, exporting EUR 6.6 billion worth of services to the EU while importing EUR 3.1 billion³⁸.

The **EU is Egypt's the first trading partner**, providing more than 32 % of Egypt's imports and absorbing more than 30 % of Egypt's exports. In 2011, the EU's principal imports from Egypt were petroleum and other raw fuels (58 %), chemicals (11 %), textiles and clothing (10 %) and agricultural products, including food and live animals (7 %). On the other hand, EU exports to Egypt consisted mainly of machinery and transport equipment (35 %), processed fuels (18 %), chemicals (17 %) and agricultural products (14 %).

In terms of foreign direct investment, the EU's investment stock in Egypt reached EUR 24.1 billion, even after falling in 2009, while Egyptian investments in Europe totalled EUR 2.1 billion.

Tab.1

The EU's trade balance with Egypt and FDI flows³⁹



The Association Agreement, the agricultural agreement and the future free trade agreement.

Egypt's trade relations with the EU had been amplified before the revolution with a 2009 **agreement on agricultural, processed agricultural and fisheries products**. This agreement followed the EU-Egypt Association Agreement of 2004, and completely eliminated duties on Egyptian agricultural imports in order to promote this socially sensitive sector. Both agreements proved to be effective: under the Association Agreement, trade nearly doubled (from EUR 11.5 billion in 2004 to EUR 23.3 billion in 2011), and under the agricultural agreement, the value of

³⁷ See EU Commission DG Trade statistics at: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113375.pdf

³⁸ *ibid.*

³⁹ *ibid.*

agricultural products imported by the EU from Egypt rose from EUR 527 million in 2009 to EUR 604 million in 2011⁴⁰.

In order to reinforce democracy and economic reforms in the countries touched by the Arab Awakening, the EU adopted negotiating directives at the end of 2011 for new **deep and comprehensive free trade agreements** (DCFTAs) with Egypt, Tunisia, Morocco and Jordan. These second-generation agreements aim not only to remove tariffs but also to protect investments and intellectual property and to standardise rules of origin and competition policies⁴¹. (For more information on these, see Section 6.)

5. Foreign Policy

5.1. Overview

For Egypt's Freedom and Justice Party (FJP), Hosni Mubarak's regime caused the country to lose much of its prominence in Arab, regional, and international affairs. Since the fall of Mubarak, the FJP has taken a pragmatic, firm foreign policy approach that 'leverages Egypt's geographical, historical, cultural, and political heritage to regain the privileged position it deserves — despite the current meagreness of its material resources and its weak regional and international presence'⁴². This 'new Egypt' aims to re-establish its former position as **a regional power**, courting all those willing to work with the new Islamist-led government.

The foreign policy of Egyptian President Mursi — the former chair of the FJP — is primarily geared towards preserving his popularity at home and boosting the ailing Egyptian economy. In this context, Egypt is reaching out simultaneously to the West, China⁴³, Iran and the Gulf countries for financial assistance to overcome its substantial economic problems⁴⁴. However unpalatable some of Egypt's new allies may seem in western capitals, Mursi has proven to be a surprisingly nimble diplomat. The new President has renewed contacts — if not formal relations — with Iran, while at the same time condemning the Syrian regime of Iran's ally,

Egypt's new foreign policy is less determined by ideological convictions than by pragmatic motivations.

⁴⁰ Data elaborated from Eurostat the figures on trade voice SITC 0 (Food and live animals). See

http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/database

⁴¹ See the Joint Communication "[Delivering on a new European Neighbourhood Policy](#)" of 15 May 2012.

⁴² Darrag, Amr. [A Revolutionary Foreign Policy](#). Freedom and Justice Party (FJP). Oct 16, 2012

⁴³ Spegele, Brian, and Matt Bradley. 'World News: Egypt's Morsi Firms Up Ties to China --- New Ruler Makes Beijing His First Major Foreign Destination, Reflecting Growing Competition for U.S. in Middle East.' *Wall Street Journal*: A.9. Aug 29 2012.

⁴⁴ 'China, Egypt: MORSI Choses BEIJING Over WASHINGTON.' *MENA Report*. Oct 8 2012

⁴⁵ 'Morsi Arrives in Iran.' *Al Bawaba*. Aug 30 2012.

President Bashar al-Assad⁴⁵. Mursi has also promised to uphold existing agreements and strategic ties with the United States, while breaking with Mubarak's exceedingly pro-US foreign policy. Mursi has assured Israel that he will respect the Camp David peace treaty⁴⁶, and, with the Israeli government's approval, he dispatched Egyptian troops to the Sinai Peninsula to deal with militant groups there⁴⁷. Finally, he has reassured Saudi Arabia that Egypt will remain a strong member of the alliance of moderate Arab countries that maintain good relations with the West. Thus, despite Egypt's Islamist president, the country's recent foreign policy has been less determined by ideological convictions than by pragmatic motivations.

5.2. More active leadership role in regional organisations

Nabil al-Araby, the Egyptian Secretary General of **the League of Arab States** appointed in the summer 2011, has worked to expand the organisation's role with reinvigorated activism and commitment. To do so, he has had to battle the League's institutional inertia⁴⁸. As reported by many observers on the ground, the atmosphere in the Arab League's Cairo offices has changed, and the organisation has come back to work after years of disarray and inactivity. Al-Araby's efforts proved decisive during the Libyan crisis — when the League asked the United Nations to impose a no-fly zone over the territory in order to protect civilians — and more recently during the Syrian crisis — when it suspended Syria's membership, imposed economic sanctions and presented a peace initiative to the United Nations⁴⁹. Much of Al-Araby's work also speaks to Egypt's desire to regain regional pre-eminence. Yet for the time being, the League's ability to act is limited by archaic decision-making procedures and by a rather weak administration. The organisation is also dependant on the willingness of its member states — and first and foremost those with a quest for regional authority, Saudi Arabia and Qatar — to finance its actions.

The 'new Egypt' will also play a more active role in the **Organisation of Islamic Cooperation** (OIC) and will host its next summit (2-7 February 2013). Egypt intends to cooperate with the OIC Secretary General Ekmeleddin Ihsanoğlu and his secretariat so that the summit would

Egypt is a key player in the Arab League while also taking a more assertive leadership role across the Arab world.

⁴⁶ Morrow, Adam. 'Egypt: Islamist Parties to Abide by Camp David - for Now.' *Global Information Network* Jan 19 2012. 'Egypt/Israel: Practical Concerns, Not Ideology, may Keep Egypt-Israel Peace.' *Asia News Monitor*. Jun 29 2012.

⁴⁷ 'The Need for Triangular Co-Operation; Egypt, Israel and Sinai.' *The Economist* Aug 11 2012: 39-40.

⁴⁸ [Egypt's Foreign Policy: A Look Into The Future](#). The American University in Cairo. 2012

⁴⁹ Adil, E. Shamoo. *Syria's Revolution Will Succeed*. Albuquerque, United States, Albuquerque: Inter-Hemispheric Resource Center Press, Jan 13, 2012.

contribute to the development of the organisation's activities in different countries and to its larger coordinating role in international fora⁵⁰.

5.3. Relations with Israel

The recent victory of Islamist parties in the Egyptian elections raised concerns about the future of Egyptian–Israeli relations and the solidity of the 1979 Camp David Accords. In recent years, the situation in the **Sinai Peninsula** has deteriorated as the result of inadequate development, the growth of an alternative economy (led by the Bedouin community and based on long-established smuggling routes), and extensive radicalisation following the conversion of many Sufi Bedouins to radical Sunni Islam⁵¹. Since Hamas assumed control of the Gaza Strip in 2007, the Sinai has become a refuge for the Islamist movement, with a 'tunnel economy' estimated to generate USD 300 million annually⁵². The Camp David Accords tightly limit the presence of Egyptian troops and artillery throughout much of the peninsula, which has contributed to an erosion of law and order and the development of a terrorist haven. Attacks have been carried out against Israelis, Egyptian security forces and foreign tourists. The identities of the attackers—Palestinians, Bedouins from Sinai, Egyptians from other parts of the country, or some mixture of the three—have often been unclear. Yet Israel and the Palestinian Authority have both called for the destruction of the infrastructure supporting these terrorist groups. Egypt's armed forces recently launched an extensive military campaign in the area⁵³, and Egypt closed its Gaza border in August 2012⁵⁴. In addition to Egyptian forces, a 1 650-strong Multinational Force and Observers mission is stationed in the Sinai Peninsula as a part of the peace treaty signed by Egypt and Israel in 1979.

Egyptian-Israeli relations have recently been tested by the ailing security situation in the Sinai.

The issue of the Camp David Accords has proved to be an important one for Mursi and others in Egypt. During the Muslim Brotherhood's electoral campaign, the group stated that it would recognise Camp David while possibly downgrading diplomatic relations with Israel. Until now, the President Mursi as the party behind him has reaffirmed his commitment to the peace accord. Yet the depth of public opinion on the matter—generally opposed to or at least highly critical of the treaty—may prove a

⁵⁰ According to its charter, the OIC aims to preserve Islamic social and economic values; promote solidarity amongst member states; increase cooperation in social, economic, cultural, scientific, and political areas; uphold international peace and security; and advance education, particularly in the fields of science and technology.

⁵¹ 'The Need for Triangular Co-Operation; Egypt, Israel and Sinai.' *The Economist* Aug 11 2012: 39-40.

⁵² *ISRAEL/EGYPT: Sinai Security Will Test Relations*. United Kingdom: Oxford Analytica Ltd, Jan 27, 2012.

⁵³ *Egypt's Army Masses in Sinai to Quell Militant Attacks*. Lanham, United States, Lanham: Federal Information & News Dispatch, Inc, 2012.

⁵⁴ 'A Honeymoon that Wasn't; Egypt and Gaza.' *The Economist* Sep 29 2012: Pg. 55

significant political force.

A lawsuit was recently brought against President Mursi, Prime Minister Hisham Qandil and Foreign Minister Mohamed Amr to call for the abrogation of the peace accord between Egypt and Israel. The suit, filed by the Members of Egypt's Revolutionary Youth Union, was recently rejected by an administrative court in Cairo. Yet any future Egyptian government dependent on a democratically elected parliament will have to consider Egyptian public opinion on this matter.

5.4. Gaza

After Mursi's election, Gazans had anticipated an improvement in their lives, and the opening of the border crossing at Rafah seemed to bear out their hopes. But relations soured after a terror attack on an Egyptian army outpost in August left 16 soldiers dead. Egypt responded by destroying hundreds of smuggling tunnels between Egyptian-controlled Sinai and the **Gaza Strip**. Though Mursi stated in a speech to the UN General Assembly this year that he has sympathy for the Palestinian people, his focus for much of his first months in office was on enhancing his domestic authority, while keeping the military on his side and avoiding antagonising Israel or the US.

Yet the **conflict between Hamas and Israel** assumed greater importance in November. President Mursi sent his Prime Minister, Minister for Foreign Affairs, chief of intelligence and a group of security officials to Gaza in an attempt to secure a cease-fire, which was announced, in conjunction with the US, on 21 November. President Mursi has been sensitive to the pro-Palestinian attitude of Cairo's streets, but his position has also been tempered by the wider demands of his job. His success in establishing a cease-fire — particularly if it proves long-lasting — has given Egypt political capital. In addition to expressing solidarity with Palestinians and averting an Israeli ground invasion of Gaza, the Egyptian-brokered agreement has reinforced Egypt's status as a regional power.

Egypt was the only interlocutor that could mediate between Hamas and Israel.

5.5. The Nile Basin Initiative and the African Union

The African dimension of the Egyptian foreign policy merits close attention. The instability in Egypt's immediate southern neighbourhood has wide implications, reaching as far as Cairo and beyond.

One of the most significant and contentious issues is water. The Nile Basin has changed in recent years, with **new dams and treaties** being negotiated. These, in turn, have imperilled Egypt's vital water resources and caused tensions to rise⁵⁵. Egypt is by far the most powerful economy

The Nile's water resources are vital for Egypt and construction of dams by other countries threatens

⁵⁵ Africa: Nile Treaty talks will be prolonged. United Kingdom: Oxford Analytica Ltd, July 6, 2012.

Egypt's water provisions. The new Egyptian government appears more open to discuss the issue with the countries upstream.

in the Nile region, as well as the most arid nation in the region. Rainfall is insufficient to maintain the Egyptian population, and the majority of Egyptians live along the river, which provides 90 % of the country's water⁵⁶. In order to sustain the lives of its people, as well as vital industry and agriculture, Egypt needs the Nile. The issue is one of national security, and the country is unlikely to accept any alteration in the status quo (barring compensation for their loss).

Egypt has nonetheless made an effort to resolve an old dispute with Ethiopia over the Nile Basin Initiative (NBI)⁵⁷. Some 85 % of the Nile's flow originates in Ethiopia, which plans to construct a massive hydroelectric project — known as the Grand Ethiopian Renaissance Dam⁵⁸. According to current conventions, Egypt may veto any upstream project, and Egypt under Mubarak strongly opposed the dam project. As a result Egyptian-Ethiopian discussions were essentially frozen. Relations began to improve slightly last year. In September 2011, the Ethiopian Prime Minister Meles Zenawi visited Egypt, and the two countries publicly expressed their intentions to resume relations and agreed to form a technical team to study the dam's potential effects on countries downstream. So far, the technical team has hinted that the Grand Ethiopian Renaissance Dam will have no negative impact to down stream countries: Egypt and Sudan. However, the team's final findings and recommendations will be submitted to respective governments in less than nine months.

Egypt is improving its African ties by participating in several conferences for the African Union.

Egypt is also reasserting its active role in the **African Union**. President Mursi attended the AU summit in July 2012⁵⁹ — the first such visit by an Egyptian president since 1995, when Mubarak had attended — and survived an assassination attempt — in Addis Ababa. This month, Egypt is hosting the African Union's 2012 High Level Retreat of Special Envoys and Mediators. The conference covers conflict, terrorism, mediation, civil-military relations and the role of civil society in promoting peace and security. This is the third consecutive yearly African Union retreat of this kind held in Egypt. Mursi's participation in these conferences is seen as a sign of Egypt's improved African ties.

5.6. Relations with China

Egypt seeks financial assistance from China.

Perhaps the strongest indication that Mursi's foreign policy is less ideological than **pragmatic** has been his itinerary. The President's first trip outside the Middle East was to China, where he sought financial

⁵⁶ [Egypt profile](#). BBC. Nov 5, 2012

⁵⁷ Sanchez, Nadia, and Joyeeta Gupta. 'Recent Changes in the Nile Region may Create an Opportunity for a More Equitable Sharing of the Nile River Waters.' *Netherlands International Law Review* 58.3 (2011): 363-85.

⁵⁸ *Egypt Water Report - Q1 2012*. London, United Kingdom, London: Business Monitor International, 2012.

⁵⁹ [Morsi in charge, at home and abroad](#). The Middle East Monitor. Nov 2, 2012.

investments and political exchanges. The visit underlined the growing importance of Asia, and particularly China, as a newly important political and economic partner to the Middle East. While Egypt's turn towards China is an understandable response to European and US anaemic growth and financial woes, it also remains to be seen whether Mursi's diplomatic forays will yield tangible benefits. Although China's trade with Egypt was worth more than USD 8 billion in 2011, Chinese foreign direct investment in Egypt amounts to a paltry USD 500 million — a fraction of the US's USD 11.7 billion in 2010⁶⁰.

5.7. Relations with Iran

Iran supported the uprising against Mubarak. When he fell, the Iranian regime extended its hand to the country's new leaders and announced that it would appoint an ambassador to Egypt for the first time since diplomatic ties were cut in 1978⁶¹. In return, Egypt has allowed Iran to move ships through the Suez Canal — something prohibited since the 1979 Islamic Revolution. A further series of exchanges also suggested relations were on the mend. In April 2011, an Egyptian government spokesperson stated, 'The former regime used to see Iran as an enemy, but we don't.'⁶²

Egypt is cautiously re-establishing its ties with Iran; however, diplomatic ties of the two countries are expected to remain complicated.

That summer, an Egyptian delegation visited Tehran and met President Mahmoud Ahmadinejad and Foreign Minister Ali Akbar Salehi. Ahmadinejad showered the Egyptians with praise, saying: 'Egypt is cherished and we will invest there with all our weight [...] we are more than ready to put all our expertise and capabilities at Egypt's service. Egypt's prosperity is prosperity for Iran, and *vice versa*.'⁶³ This visit was followed by a visit to Cairo by an Iranian delegation made up of politicians and businessmen.

Ahmadinejad's evocation of prosperity was not simply metaphorical, given Tehran's search for new customers for its sanctioned oil. In September 2012, Iranian Oil Minister Rostam Qasemi announced that Iran was in talks with Egypt to sell two million barrels of oil worth approximately USD 200 million⁶⁴. While Egypt subsequently backed away from the deal (*see below*), the Egyptian-Iranian relationship is clearly being redefined.

Yet the relationship **is likely to remain complicated** and Iran is keener to

⁶⁰ [Independent—or not?A new president heads in a new direction—or so he wants it to seem](#). The Economist. Sep 1, 2012.

⁶¹ [Tehran on the way?](#) Al-Ahram Weekly. 2012

⁶² Hamadalla, Gomaa. [Egyptian FM: Gulf fears of Egypt-Iran detente 'unjustified.'](#) Egypt Independent. July 4, 2011.

⁶³ Maged, Amany. [An intimate meeting with the Egyptian people's diplomacy delegation in Tehran](#). AhramOnline. June 2, 2011

⁶⁴ [Iran in talks to sell oil to Egypt: agency](#). Reuters. September 10, 2012

normalise relations with Egypt in order to break its regional pariah status. During the Summit of the Non-Aligned Movement (NAM) held in Tehran in August 2012, Mursi denounced the Syrian regime supported by Iran and China. Mursi urged Arab leaders to make ending the conflict in Syria the region's top priority — a speech that painfully embarrassing his Iranian host⁶⁵. Mursi's statement was seen as confirmation that he remains independent of foreign constraints and is placing **Egyptian national interests first**.

5.8. Relations with Saudi Arabia

Egypt is committed to maintain strong ties with Saudi Arabia.

Since the onset of the Arab Awakenings, Saudi Arabia has sought to aid its monarchical, Arab allies, while also developing relations with post-revolutionary states — and most notably with Egypt, the traditional Arab powerhouse. Mursi has appeared generally willing to maintain the **strong alliance** with Saudi Arabia developed by Mubarak. In general, Egyptian foreign policy regarding the Gulf States has been largely unchanged by the change in regime. Mursi's first official visit as Egypt's head of state was to Saudi Arabia — further proof of Saudi Arabia's financial largesse and political influence. Saudi Arabia has provided Egypt with USD 1 billion worth of soft loans, bonds and treasury bills to support the state budget, and USD 500 million to development projects, particularly the Suez Canal, East Port Said, North West Suez Gulf and New Valley, where the infrastructure allows fast returns on investment and helps create new job opportunities. Saudi Arabia also credited Egypt USD 250 million to import petroleum products from it. Yet the relationship also benefits Saudi Arabia, as a volatile and crumbling Egypt could pose a real risk to the Gulf country. Saudi Arabia has also been concerned by the apparently warming relationship between Iran and Egypt; however, Mursi's denunciation of the Iranian-backed Syrian regime alleviated some of these concerns. The significant economic assistance packages pledged to Egypt by Gulf Cooperation Council members — including USD 3 billion from the United Arab Emirates⁶⁶ and USD1.8 billion investment from Qatar to tourism projects — may also be seen in this context: as an effort to coax Egypt away from Iran's sphere of influence⁶⁷.

5.9. Relations with the US

Egypt's relation with the US has recently been tested; but Egypt has reaffirmed the Americans on many fronts.

Egypt's post-revolutionary period has offered no easy policy choices for the United States. Washington has had to balance its support for Egypt's burgeoning democracy with its desire for stability. Several incidents — the worsening security situation in the Sinai, last year's attack on the Israeli

⁶⁵ [Selected Excerpts of Mursi's Speech](#). New York Times. Aug 30, 2012

⁶⁶ El-Shenawi, Eman. [Are Egypt's 'old chums' coming soon? Al-Arabiya News](#). July 12, 2011.

⁶⁷ [Qatar pledges \\$2bn for Egypt's central bank](#). Aljazeera. August 12, 2012

embassy in Cairo, the arrest of 16 US NGO employees in February, and angry protests against an anti-Muslim film produced in the United States — have all tested the US–Egypt relationship. Mursi's handling of these challenges even prompted US President Barack Obama to say, 'Well, I don't think that we would consider them an ally. But we don't consider them an enemy.' While US officials later said that the two countries had moved beyond those tensions, Obama and US Secretary of State Hillary Clinton have been generally cautious towards the Middle East.

Mursi clearly values Egypt's existing agreements and strategic relationship with the United States, and he has strived to **reassure Washington**, in particular regarding Israel. As written above, the US has forgiven USD 1 billion in Egyptian debt and helped to assemble a USD-3-billion aid package from the International Monetary Fund. Deflating anxious projections about the relationship's uncertainty, these financial moves seem to have established a solid foundation for US–Egypt relations for some years to come.

The US, like many Gulf States, has worried about Egypt's closer relationship with Iran. The US Treasury reiterated that any country doing business with Iran's energy sector that has not obtained waivers would be barred from accessing the US financial system. In fact, Egypt had not obtained such waivers for the oil Iran announced it would be selling to Egypt in September (see above). Rather than jeopardise the debt relief offered by the US, Egypt chose to back away from its oil purchasing plans. Once again, Mursi's pragmatic approach prevailed.

6. EU - Egypt Relations

6.1. Overview

At the request of Egyptian officials, the EU's formal bilateral dialogues with Egypt (meetings of the Association Council, the Association Committee and sub-committees in different sectors) have been frozen since the departure of President Mubarak.

On the occasion of his first visit to Brussels on 13 September 2012⁶⁸, President Mursi expressed Egypt's commitment to a strengthened partnership with the EU and agreed on hosting the first EU-Egypt Task Force. The Task Force is a new form of European diplomacy, aimed at enhancing the EU's engagement with countries in transition through the mobilization of all EU cooperation instruments and working with several stakeholders in both public and private sectors.

The first meeting of the Task

The first meeting of the Task Force took place on 13-14 November in

⁶⁸ President Mursi met the President of the European Council, the President of the European Commission and the High Representative for Foreign Affairs and Security Policy / Vice President of the Commission.

Force took place on 13-14 November in Cairo.

Cairo. It was co-chaired by the EU High Representative Catherine Ashton and Egyptian Foreign Minister Kamel Amr. EU high-level participants included Commission Vice-President Antonio Tajani, Commissioner Štefan Füle, Bernardino León, the EU Special Representative for the Southern Mediterranean Region, Stavros Lambrinidis, the EU Special Representative for Human Rights, European foreign ministers, Members of the European Parliament, Senior officials of the European External Action Service, the European Investment Bank, the European Bank for Reconstruction and Development and Member States. The meeting gathered more than 500 participants, including ministers of the Egyptian Government and senior officials.

Over two days, participants discussed a wide range of issues including commercial relations, economic co-operation, tourism, political reform, asset recovery, human rights, governance, infrastructure, ICT and science.

The EU promotes business contacts between European and Egyptian businesspeople.

Vice-President Antonio Tajani organised a **business and tourism summit**, ahead of the Task Force, which attracted more than 100 European business leaders, representing companies with a combined turnover of EUR 600 billion. Tourism was a particular focus with a new action plan and a bilateral dialogue established.

Human rights, including women's rights, were the subject of a number of meetings and the EU Special representative for Human Rights hosted more than 40 civil society organisations. Members of the European Parliament met with politicians from Egypt's upper house (the Shura Council) and the Constituent Assembly.

Up until the task-force, the EU has been very prudent in increasing its financial support to Egypt.

The initial bilateral allocation represented **an increase of mere 5%** compared to the previous, 2007-2010 programming period, which totalled EUR 558 million over four years. These figures illustrate that the EU has been very prudent in introducing changes to its policies established before the revolution. In hindsight, it is striking how little the EU allocated and still allocates for reforms in the area of democracy.

At the task-force meeting, the European Commission committed to provide additional financial support to Egypt for an overall amount of nearly EUR 800 million. This is made up of EUR 303 million in the form of grants and EUR 450 million in loans. It is also on top of the bilateral budget allocation of 449 million, already provided by the EU to Egypt for the period 2011-2013, an average of approximately EUR 150 million per annum.

The EIB and the EBRD are ready to place important investments in Egypt.

The President of **the European Investment Bank (EIB)**, Werner Hoyer, also announced potential lending of up to EUR one billion per year, more than doubling the bank's recent activity in Egypt and making the country the biggest recipient of EIB loans in the Middle East and North African Region. The EIB also announced a new Task Force fund, which can provide up to EUR 60 million for countries in transition.

The European Bank for Reconstruction and Development (EBRD) confirmed the start of operations in Egypt this month and announced

plans to ramp up lending volumes to 1 billion per year.

The EBRD also announced a special food security initiative, which combines official funding with private sector investments.

Table 1:
Priority areas and financing in the National Indicative Programmes:

EUR million	2007-2010 (4 years)	2011-2013 (3 years)
Reforms in the areas of democracy, human rights and justice	40	50
Competitiveness and productivity of the economy	220	199
Sustainability of development and better management of human and natural resources	298	200
Total	558	449

6.2. Sectorial negotiations and related issues

At the first meeting of the EU-Egypt Task Force, both parties agreed to start a high-level dialogue on agriculture.

The **agreement on agricultural, processed agricultural and fisheries products** entered into force on 1 June 2010; this further liberalises trade of these products and substantially dismantles tariffs (except for those on a very limited number of sensitive products).

Yet agricultural products remain a very sensitive area of cooperation between the EU and Egypt. In October 2011, an import ban on cotton was adopted by Egypt without consulting the EU. This measure is neither compatible with the EU-Egypt Association Agreement nor with WTO rules. In November 2011 Egypt also initiated a safeguard procedure for cotton and mixed yarn. As of 31 December 2011, Egypt implemented a provisional safeguard duty on cotton and mixed yarn. The EU has registered with the WTO as an interested party to this investigation.

Regarding **sanitary and phytosanitary (SPS) issues**, the draft unified food law and the establishment of a single food safety authority remain pending. The EU and Egypt have addressed several trade irritants. As a result, Egyptian potato imports into the EU can follow simplified procedures.

Following a severe outbreak of a food-borne illness in the EU in July 2011 (linked to e-coli bacteria), the European Commission temporarily banned imports of certain seeds and beans from Egypt. In August 2011, the Food and Veterinary Office (FVO) of the Commission carried out a mission to assess the production of seeds that may be consumed as sprouts. Egypt has since committed itself to addressing the FVO observations.

Agricultural products remain an important but sensitive part of EU-Egyptian trade relations.

No advanced status is foreseen.

No advanced status negotiations are foreseen for the time being.

The current Action Plan expires in March 2013.

The current **Action Plan** was initially valid until March 2012 and has been prolonged until March 2013. Negotiations on a new Action Plan have not started yet, but could be initiated before the end of the year. These could be timed to coincide the Association Committee meeting, if it takes place as requested by the EU.

Deep and comprehensive free trade agreement (DCFTA) is being prepared.

At the first meeting of the EU-Egypt Task Force, both parties agreed to jointly explore how to deepen trade and investment relations, including via technical assistance, which could lead to a Deep and Comprehensive Free Trade Agreement (DCFTA). One of the objectives of this preparatory process will be to assess Egypt's capacity to negotiate and subsequently implement commitments in the different areas covered by the DCFTA. The scoping exercise will also identify priorities for Egypt's regulatory approximation of the EU acquis; these will be determined by mutual interest. Once the preparatory process is completed and the Trade Policy Committee consulted (on the basis of the Commission's report), the EU is willing to launch DCFTA negotiations rapidly.

Egypt is keen on an agreement on conformity assessment and acceptance of industrial products (ACAA)

Egypt has made significant progress preparing for the negotiations of an ACAA and has expressed a strong interest in launching the negotiations as soon as possible. If Egypt finalises its alignment of legislation and adoption of standards and if it makes meaningful progress reforming its market surveillance system, negotiations could be launched in 2012 even if this seems unrealistic. However, not all relevant Egyptian counterparts appear to be aware of the substantial work still to be done before the launch of the negotiations. In 2011, only minimal progress was accomplished on the ACAA track, and recent changes of key personnel may further undermine the pace of progress.

There is no progress in negotiations on liberalisation of trade in services and establishment.

No progress has been made in the negotiations on the liberalisation of services and the right of establishment (ongoing since 2008). Egypt insists on including elements in these negotiations that would move towards an access to the employment market, which is outside the scope of a free trade agreement. These negotiations will be integrated in the future DCFTA negotiations.

Mobility partnership talks have not started.

In June 2011, the EU proposed that Egypt, Tunisia and Morocco start a **dialogue on migration, mobility and security matters** within the context of the new EU policy developed in response to Arab Awakenings. Such dialogues are meant to lead to the negotiation and conclusion of mobility partnerships. Although Egypt declined the offer in September 2011, the newly appointed President and government may reconsider the issue.

Negotiations on the Open Sky Agreement are not

In June 2011, Egypt preliminarily agreed to resume negotiations with the EU on the **horizontal aviation agreement**. No substantial progress has

progressing.

been achieved to date.

There are possibilities for deeper bilateral cooperation in a wide range of fields.

Three agreements were signed between the EU and Egypt covering SMEs in rural areas, extension of the Cairo Metro and measures to boost trade. Before the Task Force, the European Commission, Egyptian government and the ICT industry discussed its potential for economic growth. Future cooperation will focus on establishing a competitive regulatory ICT framework in Egypt, ensuring effective Egyptian research capacity and open use and access of the internet for all. The EU has adopted new **measures to help the recovery of misappropriated assets** linked to the previous regime and the Task Force agreed to develop an Asset Recovery Road Map in the next three months to drive progress.

The Task Force announced a doubling of the Egyptian participation in **Erasmus Mundus and Tempus** programmes aimed at bringing Egyptian students and researchers to Europe.

Alongside the Task Force, an exact replica of the Tutankhamen tomb was unveiled on the 90th anniversary of its discovery, which has been donated to the Egyptian people and which is expected to be transferred to Luxor. The EU and the Egyptian authorities also agreed to an **EU-Egypt Cultural Platform**. Cultural ties between Egypt and Europe are long-standing and can help promote Egypt's social and economic development.