



EUROPEAN
COMMISSION

HIGH REPRESENTATIVE OF THE
EUROPEAN UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 20.3.2013
SWD(2013) 89 final

JOINT STAFF WORKING DOCUMENT

**Implementation of the European Neighbourhood Policy in Egypt
Progress in 2012 and recommendations for action**

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

European Neighbourhood Policy: Working towards a Stronger Partnership

{JOIN(2013) 4 final}
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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on progress made on the implementation of the EU-Egypt European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2012, although developments outside this period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Egypt. For information on regional and multilateral sector processes readers should also refer to the Partnership for Democracy and Shared Prosperity progress report.

In 2012, the EU-Egypt dialogue resumed at the highest level. President Morsi visited Brussels on 13 September and met President Barroso. The High Representative for Foreign **Affairs** and Security Policy/Commission Vice President, (HR/VP) Catherine Ashton chaired the EU-Egypt Task Force in Cairo on 13-14 November - an event which convened top business leaders, ministers and civil society. The President of the European Council Van Rompuy paid a visit to Egypt on 13 January 2013. Formal dialogue under the ENP, which had been suspended since January 2011, resumed in February 2013, through an Association Committee.

During 2012, Egypt continued its democratic transition to which the Egyptian authorities had committed following the democratic revolution in January 2011 and the subsequent ousting of ex-President Mubarak. In this process of transition several significant milestones were achieved, in particular the orderly organisation of elections the end of the state of emergency and the smooth transition from military to civilian rule. However, there have also been some serious set-backs, such as the dissolution of the People's Assembly and the lack of progress on human rights. President Morsi's constitutional declaration of 22 November giving him near absolute power, the rushed adoption of a draft Constitution by the Constituent Assembly, the abrupt interruption of the dialogue on its provisions, and the President's subsequent call for a constitutional referendum have pitched the nation into a deeply divisive political crisis between supporters of the President, on the one hand and the secular liberal opposition, mainly represented by the National Salvation Front on the other.

In late 2011 and early 2012, Egypt held parliamentary elections under full judicial supervision, in a peaceful and transparent environment. The elections gave the Islamist parties a strong lead in the parliament. The next step was to establish a Constituent Assembly to draft the new Constitution.

Presidential elections were held in May, with run-offs in June, in a highly charged and polarised political climate. Observers concluded that the elections were largely free and once again no systematic attempts were made to fix the results. The turn out was 51%. Mohamed Morsi from the Muslim Brotherhood/Freedom and Justice Party defeated Ahmed Shafiq, the former Prime Minister under Mubarak, by a small margin.

Just days before the Presidential run-offs, the Constitutional Court ruled that parts of the parliamentary election law were unconstitutional. This led the military transitional regime to dissolve the parliamentary lower house, the People's Assembly, on 17 June.

On 30 June Mohammed Morsi was inaugurated as the first democratically elected President of Egypt. He appointed a largely technocratic government headed by former Water Minister Hisham Kandil, and a Presidential Team, half of whom are Islamists.

In early August, the President took a number of decisions *de facto* handing down powers, including judicial power and in the absence of a parliament legislative power, to the civilian government.

The parliamentary upper consultative house, the Shura Council, and the Constituent Assembly continued their work. However, the secular and liberal members walked out of the discussions because, in their views the draft Constitution contained too many provisions restricting human rights and fundamental freedoms or provisions inspired by religious considerations. In late November, President Morsi issued a controversial decree giving him sweeping powers and decided to put the draft constitution to a swift popular referendum. The constitutional referendum took place on 15 and 22 December. On 25 December the results of the referendum were announced. 63.8% of voters approved it, but the turnout was only 32.9% of eligible voters. The referendum was marred by reports of procedural irregularities and other breaches. The Higher Electoral Commission investigated the claims and found them all to be without merit.

Street protest peaked again on 25 January 2013, the second anniversary of the revolution which coincided with the sentencing to death in Port Said of 21 local football supporters for the killing of 72 rival fans from Cairo. The clashes resulted in some 60 people dead over that week-end with troubling reports of human rights abuses. As these events unfolded, the opposition parties within the National Salvation Front kept raising their demands on President Morsi to engage in a meaningful dialogue. Their main demands included the establishment of a national unity government (with the related postponement of the parliamentary elections); the appointment of a committee to discuss amendments to the constitution; the replacement of the Prosecutor General and the independent investigation of recent human rights abuses; and the secularisation of state institutions. The electoral law is another bone of contention. In February, President Morsi announced the dates for parliamentary elections (from end April to end June) and an official invitation was extended to the EU to observe the elections. Due to an administrative court ruling on 6 March 2013 to refer the electoral law to the Supreme Constitutional Court, it is likely, however, that the elections will be postponed.

The state of emergency was lifted in May 2012 after 31 years. However, the law allows prosecutions initiated under the state of emergency and the trials of persons before the state of emergency courts to continue after the lifting. Thus a number of cases continue to be brought before emergency courts which fall short of international standards. Hundreds of civilians, including juveniles, were convicted by military courts during the transition and remain in prison. It is still possible to refer civilians to military courts, but this has not been used systematically in recent months. A government-appointed panel has reviewed their cases and President Morsi has pardoned several hundred of those convicted. Under the new constitution, civilians can still continue to be tried before military courts.

Current NGO legislation continues to hinder the work of NGOs in terms of registration and funding. The issue of revising the legislation has been under discussion since August 2011. It was high on the agenda of the first parliament elected after the uprising. The People's Assembly did not reach an agreement before it was dissolved and reportedly a new law will have to wait under a new People's Assembly is in place.

The economic situation has remained challenging. By mid-2012 the economy started to stabilise on the basis of increasing non-oil exports, the stabilising of the external position and strong remittance flows. It was also supported by the approval of the new Economic and Social Programme with a strong fiscal adjustment component, and the prospects of concluding negotiations with the IMF on a stand-by arrangement amounting to USD 4.8 billion which would open the door to substantial external donor financing. However, towards the end of the year, in a context of further political instability, Egypt requested a postponement of the IMF Board decision on the IMF arrangement, due in all likelihood to political fragility in the run-up to the constitutional referendum. It suspended the unpopular tax increase and subsidy-reduction measures that the government had agreed to put in place prior to the signature of the agreement. The Central Bank of Egypt was forced to put in place emergency restrictive measures in the face of falling foreign exchange reserves and downward pressures on the currency. The heightened political uncertainty by the end of 2012 could have further impact on the domestic economy.

However, despite a long and protracted economic transition, and provided that Egypt follows through with the fiscal and structural reforms to reduce the vulnerability of the economy and rebuild fiscal and external buffers, the country could restart a sound, if slow, recovery process, one that should be more inclusive and responsive to its people's aspirations.

In 2012 Egypt addressed only some of the key recommendations contained in the last year's ENP progress report. Power was handed over to a civilian government, and the state of emergency was lifted. A constitution was drafted and adopted by popular referendum, although the process was controversial and heavily criticised by the opposition, and led to a deeply divisive political crisis. Many other key recommendations still need to be addressed. On the basis of this year's report and to sustain implementation of the ENP Action Plan in 2013, Egypt is invited to:

- Ensure an inclusive dialogue with all political parties and other actors including religious leaders to ensure that the Constitution is co-owned by all Egyptians and enshrines respect for human rights and fundamental freedoms, notably preserving the freedom of religion and protecting minorities.
- Organise within the set timetable fair and transparent parliamentary elections with the participation of foreign election observation missions.
- Completely halt the use of military courts to judge civilians.
- Create conditions conducive to an active and independent NGO community and adopt NGO legislation in line with international standards.

- Pay particular attention to the protection of women's rights and gender equality.
- Implement the Economic Reform Programme that ensures macroeconomic stability and strengthens public finance management in line with international standards.
- Ensure and implement social safety net systems to protect the most vulnerable from the impact of commodities subsidy reductions.
- Engage in the Deep and Comprehensive Free Trade Area (DCFTA) preparatory process in line with the EU-Egypt task force conclusions.
- Sign and ratify the regional Convention on pan-Euro-Mediterranean preferential rules of origin.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

Egypt held parliamentary **elections** in late 2011 and early 2012, under full judicial supervision. Observers found no evidence of any systematic attempt on the part of the authorities to rig the results of these elections in favour of any one party. Presidential elections were held in May, with run-offs in June in a highly charged and polarized political climate. Although some restrictions on foreign monitors were imposed, observers concluded that the elections were largely free. The turn-out was at 51%.

New political parties are regularly formed. There have been no reports of any official efforts to obstruct the formation of new parties, and no reports that any application has been rejected by the judicial committee in charge of vetting party applications.

No progress was achieved with regard to improving the working conditions for civil society organisations. Their work continues to be hindered by the current NGO law, which is still not in line with international standards.

Protests are regularly held at locations that were previously considered unapproachable, including the Presidential Palace and various state ministries. However, there have been increasing concerns of rising violence in recent months during public demonstrations, in particular from security forces.

Despite the greater room for freedom of expression since former President Mubarak stepped down, cases of interference towards individuals and the **media** are still reported, including prosecutions against critics of the President and of the ruling party, and arrests and prosecutions under the blasphemy law, which predates the new administration.

A committee set up by President Morsi to investigate abuses perpetrated by the security services against demonstrators since the revolution has yet to issue a report.

The June decision of the Supreme Constitutional Court to dissolve the entire Islamist-dominated lower house of parliament, based on the allegedly unconstitutional electoral law governing elections to a third of the seats, was perceived by many as a political decision, and it contributed to the polarisation of the country. In April, an administrative court dissolved the elected, Islamist-dominated, Constituent Assembly charged with drafting a new constitution, also on questionable legal grounds.

The state of emergency was lifted in May 2012 after 31 years of continuous imposition. However, the law allows prosecutions initiated under the state of emergency and tried before state emergency courts to continue after the lifting. Hundreds of civilians, including juveniles, were convicted by military courts during the transition and remain in prison.

A number of high-profile **corruption** cases, chiefly focused on individuals associated with the former regime, have been and continue to be brought before the courts, which have handed down prison sentences and massive fines in several cases.

The President replaced the head of the Government Oversight Agency after allegations that the former head was complicit in concealing evidence of financial impropriety by members of the former government. Major land sales concluded under the previous regime have been annulled when found to have violated the law, or deliberately undervalued, or in cases where companies have been forced to pay market prices to make up the difference.

In August, the President undertook an extensive reshuffle of the **military** and subordinated the military establishment to the elected civilian executive.

Other human rights and governance-related issues

The culture of violence and **torture** in the police, the security sector, and in some cases the military, did not change dramatically after January 2011. The Egyptian authorities have announced their intention to undertake a general reform of the police, including measures against the use of torture, but it is unclear to what extent this has materialised. Investigations have also been conducted to assess army and police involvement in torture, but no reports have yet been issued.

As regards **freedom of religion**, Article 43 of the Constitution guarantees freedom of belief, but requires the State to safeguard the right to practice and build places of worship for the Abrahamic religions. This raised concerns on the part of other religious groups such as the Baha'is and the Shias. Article 3 specifies that the canons of Egyptian Christians and Jews will be the principal source of legislation that regulates minorities' personal and religious affairs. In 2012 no progress was achieved on authorisations to build places of worship or on investigations into disputed construction permits for churches announced in 2011.

Women played a very active role in the 2011 uprising, but their rights are now being severely challenged in the process of political transition. The new constitution obligates

the state to provide equal opportunities, but the previous provisions on gender equality have been dropped. Egyptian women activists feel that women have been intentionally excluded from the political and civil scene and that women's voices are not represented in the political process. There is deep concern about the Islamist political parties and their stance towards women's rights. Egypt still lacks a legal environment to protect girls and women from violence, to encourage them to report attacks, and to deter perpetrators from committing abuses against them. In the 2012 upper house elections, women won only 4 out of the 180 seats. Reported violence against women participating in demonstrations is a matter of serious concern.

Child labour persists and the children involved are subjected to harsh working conditions. Street children, reportedly in the hundreds of thousand, are exposed to sex trafficking. Egyptian children are also recruited for household services and there are frequent charges that wealthy people from the Gulf have come to Egypt to buy temporary wives under 18.

As regards the situation of **minorities**, relations between Bedouins and the government remain tense and Bedouins consider themselves to be marginalised. The situation in the Sinai is complicated by the government's security concerns for the area, safeguarding the borders with Israel and Gaza, and controlling smuggling activities, in which Bedouins are sometimes implicated.

In the aftermath of the Egyptian uprising, the Ministry of State for Administrative Development provided administrative and technical support to the democratic transition and electoral processes. This work helped to build up the capacity of the Egyptian administration by developing and streamlining voter databases and improving access to information on the voting process.

Several ongoing national programmes address the improvement of public services and administrative simplification, the development of national databases of Egyptian households, institutional development of different administrations, including the introduction of results based management, piloted in the Ministry of Planning and International Cooperation, the Ministry of Finance, and the Ministry of Local Development, and the National Planning Institute. There is no formal national strategy on public administration reform.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management

Egypt is an active partner on many CFSP matters in the region and has been a key player in Palestinian reconciliation. Representatives from both Hamas and Fatah, including at the highest level, have visited Cairo on a number of occasions and Egypt has pushed both to the Doha Declaration of 6 February 2012. President Morsi and his team played a fundamental role in achieving the Gaza ceasefire on 21 November.

Egypt has increased its engagement with its African partners in general. For the first time since 1995, the Egyptian President was present at the African Union Summit of 2012.

Egypt has stepped up its efforts to find a solution to the Syrian crisis. An Egypt-led quartet on Syria, including Turkey, Saudi Arabia and Iran, has met three times.

Since the attacks on its border troops on 5 August 2012, Egypt has undertaken security-related operations in the Sinai aimed at curbing the presence of Jihadists in the peninsula. Despite the recent domestic political turmoil, Egypt has continued its active regional policy in the field of disarmament, both bilaterally and via its membership in the Non-Aligned Movement especially on the issue of a nuclear-free Middle East.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy¹

The 25 January revolution continued to contribute to a depressed economy in 2012. Egypt recorded GDP growth of 2.2% in Fiscal Year (FY) 2011/12, following a 1.9% growth the year before, far from the 7% growth achieved prior to the financial crisis. Whereas by the autumn of 2012, Egypt's economy showed some clear signs of stabilisation and the basis had been set for a much-awaited recovery following the drafting of a new economic reform programme and the agreement on a Stand-by Arrangement with the IMF, Egypt reversed course in end-November, thereby bringing back a period of macroeconomic instability. As these events took place on the back of an already vulnerable economy, their consequences are still being felt.

Egypt's inflation has traditionally been high, reflecting in part the supply-side market inefficiencies. Since mid-2012, however, inflation has been on a significantly declining path – an average of 4.7% in 2012, relative to 10.1% a year earlier - owing to a negative output gap, although projected to increase again due to depreciation pressures and to energy-administered prices likely to go up.

The FY 2011/12 fiscal deficit stood at 10.8% of GDP – up from 9.7% the year before. The FY 2012/13 budget deficit will likely exceed the previous year's deficit, as the government has not yet been able to adopt an economic programme with a strong fiscal consolidation component. The reform of the generalised subsidies system should be central to these efforts.

The current account deficit increased to 3.1% of GDP in FY 2011/12 from 2.6% the year before, primarily due to the increasing import price of commodities, namely oil, and to a drop in tourism receipts. The greatest pressure continued to be exerted on the financial account, with a flight of portfolio investments of USD 12.8 billion since early 2011 through end-2012, as well as drastically lower FDI inflows. These pressures accelerated since end-2012. Whereas the reserves position had stabilised since February 2012 thanks to the drying up of portfolio investment outflows and the receipt of various financial pledges, the political instability since end-2012 led to a renewed period of heightened

¹ Figures on GDP, inflation, trade and employment are generally from Eurostat based on data supplied by the national statistical offices; or IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

external pressures. By end-January 2013, international reserves had dropped to USD 13.6 billion, despite significant offsetting foreign contributions.

After three failed attempts to adopt a financial arrangement with the IMF, which would provide access to USD 4.8 billion and open the door to further donor financing, negotiations were expected to be re-launched in 2013.

Social situation, employment and poverty reduction

Unemployment remained a major problem, and was expected to increase from 12% in 2011 to 12.7% in 2012. The unemployment rates of higher education graduates were particularly high; overall unemployment remained much higher for women than for men.

Geographical disparities remained, with **poverty** levels at 43.7% in rural upper Egypt and major inequalities between rural and urban areas throughout the country. The country appears not to be “off track” and unlikely to achieve some of the Millennium Development Goals by the set date of 2015, especially with regard to the gender gap. Further efforts are needed in many social fields, particularly in higher and technical education, primary health care, employment and social policy.

In 2012, the new Government endorsed the National Action Plan on Youth Employment for 2010-2015, which had been prepared in 2010. The Plan has three policy priorities: (i) increasing youth employability; (ii) obtaining technical assistance for business incubators and (iii) developing a career guidance system. The main problem continued to be the lack of funds for its implementation and an integrated employment and social policy is also still lacking.

The new Government disregarded the **Labour Law** that had been submitted during the transition period. A new law was tabled by the Muslim Brotherhood within the Parliamentary Committee in charge of Labour issues before the dissolution of the Parliament, but the debate stagnated. According to independent trade unions, the amendments to the already restrictive Trade Union Law 35/1976 would further weaken workers' and trade unions' rights, including in relation to freedom of assembly and freedom of association. It would also weaken the protection of trade union members and representatives from unjustified dismissals. In November, the EU agreed to support Egypt (EUR 70 million) in creating short term employment opportunities for unskilled and semiskilled workers in small scale infrastructure projects and in community services in the poorest Governorates of the country.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Egypt's main trading partner accounting for 30% of its trade volume in 2011². **Bilateral trade** flows increased and during the first eleven months of 2012 amounted to

² Data for 2012 was not available at the time of writing.

EUR 21.8 billion. EU exports to Egypt consisted mainly of machinery and chemicals. EU imports from Egypt consisted mainly of energy products, chemicals, textiles and clothing.

Egypt continued to dismantle its tariffs on imports of EU industrial goods, as laid down in the Association Agreement. Egypt formally lifted an import ban on cotton in March 2012. However, not a single permission to import cotton has been granted. This goes against the Association Agreement and WTO rules. Egypt initiated safeguard investigations on imports of cotton yarn, cotton textiles and polypropylene, which led to a final imposition of safeguard fees on cotton yarn in August 2012. The two remaining investigations were suspended in September 2012 and the fees were lifted.

In February 2012, Egypt imposed restrictions on imports of dairy, meat and live cattle from the EU following the outbreak of the Schmallenberg virus (SBV) in Europe. The restrictions on meat and dairy were lifted in May 2012 and the ban on live cattle imports was lifted in July under certain conditions. The EU's import restrictions for seeds and sprouts from Egypt, related to the *E. coli* outbreak, expired in March 2012 and were not renewed due to the measures taken by Egypt in compliance with the FVO's recommendations.

Negotiations on the liberalisation of **services** and **establishment** made no progress. The preparatory process for the Deep and Comprehensive Free Trade Area with Egypt has yet to be launched. Egypt has yet to notify the EU of the completion of internal procedures for the entry into force of the Protocol on the Dispute Settlement Mechanism signed in November 2010.

Egypt failed to modernise and simplify **customs** legislation and procedures, as a new Customs Law, which was expected to be adopted already in 2011, has yet to be approved by the Parliament. Egypt has yet to sign and ratify the regional Convention on pan-Euro-Mediterranean preferential rules of origin, but it did regularly participate in the meetings of pan-Euro-Med Working Group, which is currently discussing the revision of the rules of origin in the framework of the regional Convention.

Little progress was made on **free movement of goods** and **technical regulations**. Preparations for the EU-Egypt Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) did not progress significantly, since further progress depends largely on the adoption of new legislation. Egypt established a National Quality Council for strategic coordination of quality infrastructure; its future role in the ACAA process remains to be clarified. New standards, aligned to those of the EU, were issued for a number of products (e.g. household appliances, cement and furniture). Egypt introduced two new technical barriers to trade: compulsory pre-shipment inspection for imports of textiles and leather products, which constitute disproportionate and unnecessary obstacles to trade.

Regarding **sanitary and phytosanitary** issues work on the draft unified food law and the establishment of a single food safety authority remained pending. Thanks to improved control measures in Egypt, the EU lifted import restrictions for certain seeds and simplified import conditions for potatoes from Egypt. Egypt participated in a

Commission/European Food Safety Agency/TAIEX-supported seminar for Mediterranean ENP countries on regional coordination of animal identification and disease control measures held in Cyprus in September.

The suspension of the granting of licences for the **establishment** of tourism companies (domestic or foreign) was extended until March 2013. In February 2012 Egypt amended its rules for public private partnerships (PPP) to allow disputes to be resolved through arbitration rather than through Egyptian courts. In January 2012 a decree-law for the Integrated Development of the Sinai Peninsula opened the way for foreign participation (up to 45%) in investment and development projects in the region.

Some concerns related to **the business climate** persisted, more particularly over physical security (especially in the Sinai but also in the Cairo area), often related to labour disputes, legal uncertainty in relation to contracts and the increase in payment arrears. Several rulings on privatisations by administrative and civil courts have raised questions about the definition of competences in the judiciary, and on the compliance of these decisions with Egypt's international commitments on investment. Egypt's rank in the World Bank's Doing Business report remained stable but weak, rising to 109th (out of 185).

In the area of **financial services**, Egypt suspended trade in foreign securities in July 2012. This measure was intended to protect investors from losses abroad; however, one of its main consequences is that it limits the cross-border **movement of capital**.

Other key areas

In July, Egypt began to use difficult-to-counterfeit banderols and stickers to indicate payment of customs duties and sales **tax**. New tax accounting rules and principles and procedures for profit tax collection were issued for SMEs, the aim being to reduce the administrative burden. Egypt also brought a number of incentives for tax settlement, reducing the amount of tax payable to reward prompt payment.

The Egyptian **Competition** Authority continued to improve its institutional performance with the support of an EU twinning project.

In April a decree was issued requiring the administrative bodies of the State with separate budgets (except in the defence sector) to publish the results of tenders on the Government **procurement** web portal.

Egypt improved training for **statisticians** with the creation of a statistics training committee within the Central Agency for Public Mobilisation and Statistics. It also started preparations for a household survey on migration, to be carried out in 2013.

Concerning **enterprise policy**, Egypt participated in the 2011-2012 work programme for industrial cooperation and welcomed in November 2012 an EU task force with a delegation of EU entrepreneurs with the set up of a business and tourism forum.

There were no significant developments on **intellectual property rights, company law, including accounting and audit, or public finance management.**

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

On 27 February 2012 the European Commission adopted a Decision establishing the list of supporting documents to be presented by **visa** applicants in Egypt. From 1 March 2012, all EU Member States require the same set of documents from visa applicants wishing to travel to the European Union (Schengen area). This measure is a huge simplification for the some 120,000 visa applicants in Egypt, who now no longer face differing requirements.

The EU reiterated in 2012 its offer to start with Egypt a Dialogue on Migration, Mobility and Security leading towards the conclusion of a Mobility Partnership, similar to what the EU is doing with other Southern Mediterranean countries. However, Egyptian authorities continued to decline the offer.

Concerning **asylum** issues, the UN High Commissioner on Refugees (UNHCR) confirmed records of 44 refugees and asylum seekers in detention in Egypt. 29 689 Syrian nationals were registered in Egypt as of February 2013 according to UNHCR. The number of Syrian nationals wishing to register as asylum seekers in Egypt is expected to increase further, given the continuing humanitarian and refugee crisis.

Hundreds of African nationals (most of them Eritreans) are reportedly detained in police stations in Sinai in conditions that fall well below minimum detention standards required by human rights law. The Egyptian government has consistently denied UNHCR contact to the detained refugees and asylum seekers. It claims that the detained persons are economic migrants and not asylum seekers, and as such it perceives no obligation to give UNHCR access to these centres.

Human trafficking in Sinai remains a matter of concern. Migrants, primarily from Eritrea and Sudan, are being held for ransom and seriously abused by human traffickers and other criminals before they are allowed to continue their journey to Israel. Egypt has a strong law against human trafficking, but prosecutions are very rare.

According to the MFO (Multinational Force and Observers) the flow of migrants has decreased since Israel started building a fence at the Egypt-Israel border.

Since mid 2011, the EU has granted EUR 2.5 million in support for the "fight against corruption, **money laundering** and asset recovery" project, being run by the UN Office on Drugs and Crime (UNODC) in close cooperation and partnership with the Egyptian authorities. It aims to create an effective mechanism to combat corruption and money laundering, to foster asset recovery procedures and to create a solid framework to implement the United Nations Convention against Corruption (UNCAC). Several events took place in 2012, notably a workshop on asset recovery, training courses on UNCAC review mechanisms, and a workshop on formulating an anti-corruption strategy.

Egypt participated in a Multi-Country Workshop on **Drug** Prevention and Monitoring: Situation and Perspectives in the ENP Southern Partnership countries, organised by the European Commission and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). This took place under the auspices of the Cypriot Presidency, and was held in Cyprus in October.

In the area of **police** reforms, Egypt participated in the regional Euromed Police III programme. In July it attended the first meeting of the General Directors of Police and Security Forces of the Southern ENP partners and EU Member States. In October, the EU offered support to the Ministry of Interior in its security sector reform.

Due to the heavy electoral agenda in the first half of 2012, with judges responsible for supervising polling stations, the workload of the Egyptian Ministry of Justice prevented any substantial progress in the implementation of the EU bilateral projects in the justice sector. It also hampered Egypt's effective participation in the Euromed Justice III regional Programme. No significant progress was achieved in the field of **judicial and law-enforcement cooperation**, and several international conventions regarding family law (notably children) remain unsigned.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND INNOVATION

In the area of **transport**, Egypt launched a feasibility study for a mass transit system linking the 10th of Ramadan City to Cairo. It also launched a detailed study and an action plan to implement the east Port Said master plan, aiming to create a regional hub. In September an agreement to co-finance the Cairo Metro line 3 was signed, involving the Neighbourhood Investment Facility (EUR 40 million in grants), the EIB (EUR 600 million) and Agence Française de Développement (AFD) (EUR 300 million). In November, the EIB and Egypt agreed on a project to upgrade the air traffic management systems of the National Air Navigation Services Company (NANSC). On maritime issues, the Egyptian flag remained on the grey list of the Paris Memorandum of Understanding on Port State Control.

Energy cooperation with Egypt continued in 2012 including in the context of the EU-Egypt Memorandum of Understanding on a strategic partnership on energy. In January, a major EU energy sector policy support programme (EUR 60 million) got started. It includes reform commitments on electricity and renewable energy sources. In 2012, Egypt faced electricity black outs and fuel shortages. Egypt continued working on electricity tariffs, market rules, grid codes, investment promotion plans and the creation of a web-based register for market operations. It further upgraded its electricity networks, partly in the framework of a project funded by the Neighbourhood Investment Fund (NIF), EIB, KfW (German development bank) and AFD. In April, the League of Arab States, in cooperation with, inter alia, the EU organised a Forum on renewable energy and energy efficiency, promoting Euro-Arab cooperation. Egypt progressed on several renewable energy projects. In June, an agreement was reached with an Italian private investor to install 120 MW of wind power at Gulf El Zeit, which will supply electricity to

cement factories. Egypt made progress on a feasibility study, co-funded under the NIF (EUR 3 million), for the Kom Ombo 100 MW concentrated solar plant. In September, a NIF-supported (EUR 0.8 million) tender for a pre-feasibility study of the Kom Ombo 20 MW photovoltaic power plant was launched. Work on the 200 MW Gabal El Zeit wind power plant also continued. Egypt is encouraged to continue focusing on renewable energy sources and energy efficiency and to address the heavy burden of energy price subsidies.

In the field of **climate change**, Egypt is encouraged to build up capacity and engage in the new carbon market mechanism to be developed following the 17th and 18th session of the UN Framework Convention on Climate Change Conference of the Parties. With the support of the newly launched regional technical assistance project for climate change and related matters, Egypt is encouraged to devise a low-carbon development strategy as well as to develop a nationally appropriate mitigation action. Additional efforts should be made to fully implement the Cancun and Durban agreements.

As regards the **environment**, the Government established the Ministry of Utilities for Drinking Water and Wastewater, with responsibility for investment, service provisions and regulatory functions. In 2012 the EU scaled up a NIF participation to a joint European programme to improve water and wastewater infrastructures in Upper-Egypt by EUR 10 million bringing total EU contribution to EUR 23 million.

Dealing with solid waste was one of President Morsi's key priorities. A Solid Waste Management Unit, the nucleus of a Solid Waste Management Agency, was established and the hiring of staff started. The EU assistance to Egypt in 2013 will notably include EUR 20 million that are earmarked for a project in the field of solid waste management.

Since January, the EU has been assisting the Government in introducing an innovative mechanism for recharging treated wastewater into the Egyptian aquifer with a view to enhancing the water management efficiency. As part of the integrated pollution reduction programme for Lake Burullus, the wastewater handling expansion for the Kafr El Sheikh Governorate is one of the four leading projects of the Mediterranean Hot-Spot Identification Programme (MeHSIP) financed under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and managed by the European Investment Bank (EIB).

Egypt continued its participation in the **Integrated Maritime Policy** (IMP-MED) technical assistance project under the ENPI South programme.

In the area of **civil protection**, the flagship programme for Prevention of, Preparedness for, and Response to natural and man-made disasters (PPRD South) contributed to the establishment of a regional framework of disaster management authorities that could intervene collectively in the event of disasters overwhelming the affected country. Indeed, sustainable development requires adequate disaster risk reduction efforts. Egypt is among the 168 governments that adopted in 2005 the "Hyogo Framework for Action: Building the Resilience of Nations and Communities to Disasters", which emphasizes the central role of disaster risk reduction for all development policies. However, work on

Disaster Risk Reduction (DRR) and climate adaptation is only at the beginning and it will require considerable further support to develop capacities and processes. DRR policy is fostering dialogue with Civil Society and NGOs, thus contributing to a more sustainable democracy. Analysis of the regulatory and institutional frameworks started with the aim of strengthening capabilities and inter-ministerial coordination in the second phase of the programme.

Regarding the development of **information society** policies in Egypt, a number of initiatives continued to be discussed, including in the context of the Arab Spring. In many cases, progress remains linked to the current political situation. For example, a new draft telecommunications law has been prepared but is yet to be approved. The move towards a more unified licensing system was also under review. Plans to issue a second fixed licence to liberalise the fixed line market have been set back due to the international financial crisis. A National Broadband Plan was finalised in 2012 and an action plan was being drawn up combining infrastructure and education-related projects. The Egyptian national telecommunications regulator NTRA took over the chair of the joint EU-Southern Mediterranean telecommunications regulator forum EMERG in 2012. Information society consultations took place in November under the auspices of the EU-Egypt Joint Task Force.

No significant progress was made in the area of **audiovisual policy**. There is no comprehensive policy for the audiovisual sector, and censorship remains an issue to be addressed. The EU supported Egypt's audiovisual sector through the Euromed Audiovisual III Programme to analyse the challenges and future of the industry.

Progress was made on integrating Egypt into the European **Research** Area (ERA). Under the EU's RDI II programme, the Egyptian authorities put in place an effective network, across the country, of contact points for the EU's Seventh Framework Programme for Research and Technological Development (FP7). In 2012, there were 81 FP7-funded projects with 54 Egyptian partners, with a total of 101 Egyptian participations. Cooperation was also pursued in the context of the EU-Egypt Innovation Fund. The total EU contribution to these projects amounts to EUR 295 million, more than EUR 12 million of which went to the Egyptian partners. The EU-Egypt Science, Technology and Innovation Cooperation Portal was launched in October as part of the EU FP7 BILAT project ShERACA (Shaping Egypt's association to the European Research Area and Cooperation Action). It was funded under the FP7 INCO programme, with the overall objective of getting more Egyptian R&D stakeholders and key players involved in ERA activities. In November 2012, at the EU and Egypt Joint Task Force meeting, the parties agreed to give support to science and innovation. This support will build upon EU-Egypt cooperation in FP7 in synergy with other instruments (e.g. RDI) and will boost stronger cooperation in research and innovation in Horizon 2020 programme.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

Education reforms continued to stagnate since the events of January 2011 and the ensuing political transition. Key staff in the Ministries of Education and Higher

Education resigned due to serious disagreement with the new political leadership. However, the new Presidency reiterated the strategic importance of education for the development and competitiveness of the country, promising more resources for next year. The new authorities said they were committed to an organisational restructuring of the sector and to increasing of academic staff salaries.

Reforms in pre-university education continued stagnating and the National Education Strategic Plan (NESP) expired in 2012. The new Minister of Education started evaluating the NESP with a view to developing a new strategy, and agreed to carry out a joint review with the OECD, the World Bank and the EU of the pre-university education sector in early 2013. Despite remarkable successes during the first two years, there were no further developments regarding the EU education budget support programme (thus putting next payments at risk). The National Authority of Accreditation and Quality Assurance of Education (NAQAAE) completed its work on quality standards and accreditation manuals for the whole education sector.

Technical and Vocational Education and Training (TVET) continued to be a major concern in Egypt, with poor educational outcomes, high institutional fragmentation and ineffectiveness in the allocation and use of resources. The post-revolutionary authorities declared the sector as a key priority given its links with the competitiveness of the economy and youth employment. A governmental committee was tasked with formulating a proposal on how to revive the tripartite Supreme Council for Human Resources and Development (SCHRD). The first draft also includes provisions for the potential creation of a National Employment Agency. The EU continued to provide support to the National TVET system through a EUR 50 M project decided in 2012. Furthermore, a twinning project with the Productivity and Vocational Training Department (PVTD) continued smoothly.

Egypt remained very active in the **Tempus** and **Erasmus Mundus** programmes. Bologna-oriented reforms, piloted through Tempus projects, helped raise the quality upgrade of the sector. Egypt was involved in 33 Tempus projects, representing 30% of approved projects in the Southern Mediterranean region to date. The number of selected projects rose significantly, from four to twelve, due to the increase in budget available for the ENP South countries. 98 Egyptian students were selected for **Erasmus Mundus** joint Masters or Doctoral programmes, 88 of whom were under a special regional window for the ENP South countries under the revised ENP, together with a further 150 mobility grants organised within a university consortium. Since 2007, 32 Egyptian researchers have benefited from **Marie Curie Actions**, which involved 29 organisations located in Egypt.

2012 saw a large increase in the number of young Egyptians and Egyptian youth organisations participating in the **Youth in Action** Programme. Compared to 2011, the number of young people participating in the programme rose from 142 to 273, and the number of projects rose from 50 to 74.

Access to **culture** in Egypt remained an issue, and the absence of a national-wide cultural strategy hampered the development of the sector. The Parliament Committee for

Culture, Media and Tourism adopted the main basis for a future cultural strategy before being dissolved in June 2012. Implementation of the legal framework was difficult due to the lack of capacity in relevant Departments within the Ministry of Culture, the lack of cooperation with other institutions and the absence of an overarching policy and vision. The EU took the necessary administrative steps to extend financial support to the *Bibliotheca* of Alexandria under the "Enhancing Cultural Diversity and Creativity" Programme. Furthermore, the EU supported the policy-making process and access to culture through the "Culture for Development Indicators Suite in Egypt" (in partnership with the UNESCO) and through the Annual Call for Proposals for Cultural Operators.

Following the June Presidential elections, a new Minister of **Health** and Population and two deputies for primary health care and for social health insurance were appointed. The health policy dialogue between Egypt, the EU and other institutional stakeholders remained strong. Egypt confirmed that its top priorities were to modernise and standardise public primary health care and to devise a new social health insurance scheme. Under the new Government some progress was made on the ambitious and longer-term health reform. The drafting of the new social health insurance legislation is almost finalised. The primary health care reform is progressing well, improving basic health service for the most vulnerable. The EU Health Sector Policy Support Programme II (EUR 110 million) contributed positively to the health reforms. Egypt continued participating in the EU supported 'Episouth Plus' project aimed at increasing health security in the Mediterranean region and South East Europe. Egypt participated in a Commission/European Centre for Disease Prevention and Control conference and training course aiming to strengthen capacity building for communicable diseases prevention and control in the Mediterranean. The aim is to jointly explore the scope for developing a regional training programme on intervention epidemiology.