



EUROPEAN
COMMISSION

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

Brussels, 27.3.2014
SWD(2014) 71 final

JOINT STAFF WORKING DOCUMENT

**Implementation of the European Neighbourhood Policy in Egypt
Progress in 2013 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**

**Neighbourhood at the Crossroads:
Implementation of the European Neighbourhood Policy in 2013**

{JOIN(2014) 12 final}
{SWD(2014) 69 final}
{SWD(2014) 70 final}
{SWD(2014) 72 final}
{SWD(2014) 73 final}
{SWD(2014) 74 final}
{SWD(2014) 92 final}
{SWD(2014) 93 final}
{SWD(2014) 94 final}
{SWD(2014) 95 final}
{SWD(2014) 96 final}
{SWD(2014) 97 final}
{SWD(2014) 98 final}
{SWD(2014) 99 final}
{SWD(2014) 100 final}

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 2013, 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.

2013 has been politically a very challenging year, during which no particular progress can be reported in relation to the ENP Action Plan currently in place. Nevertheless, the EU undertook extensive outreach activities. The High Representative for Foreign Affairs and Security Policy/Commission Vice-President Catherine Ashton, the EU Special Representatives, Bernardino León and Stavros Lambrinidis, visited Egypt several times, engaging closely with all political parties in order to help overcome the political mistrust and polarisation that have characterised the political scene in Egypt. These efforts were heightened following the ousting of Mohamed Morsi. The EU remains a partner trusted and respected by all political sides.

Formal dialogue under the ENP, which had been suspended since January 2011, resumed through an Association Committee meeting in February 2013, following the commitment made in the EU-Egypt Task Force in November 2012. At the meeting, it was agreed to extend the current Action Plan by one year, until 6 March 2014. The Egyptian side committed to exploratory talks on starting negotiations on a new Action Plan. It was also agreed to make arrangements for a number of subcommittee meetings. Both initiatives had to be postponed due to the events leading to Mr Morsi's ousting on 3 July 2013.

The first half of 2013 was tainted by the negative atmosphere created by the rushed constitutional process and a Constitution adopted with a limited turnout (32%) by popular referendum in December 2012. The process had been controversial and heavily criticised by the opposition, and there was little real effort made by the Morsi government towards political reconciliation and a genuinely inclusive political process. This led to a deeply divisive political crisis that culminated at the end of June in massive demonstrations against the government throughout the country. Following an ultimatum set by the armed forces, Mohamed Morsi was ousted from office on 3 July 2013 and put under house arrest. Chief Judge Adly Mansour was appointed as interim President and nominated an interim government, led by Prime Minister Beblawy and made up mainly of technocrats. A political road map was adopted by the new authorities, envisaging a revision of the Constitution, with parliamentary and presidential elections to follow to complete the process by mid-2014.

In response to the ousting, supporters of the Muslim Brotherhood and Mr Morsi organised mass demonstrations and sit-ins. The new Egyptian authorities violently dispersed the Muslim Brotherhood-led sit-ins in Cairo on 14 August, which led to more than 1000 people being killed, including security personnel. A state of emergency was reinstated and ended on 14 November, although the authorities continued a clampdown

on the Muslim Brotherhood and its affiliates, with thousands arrested and detained on criminal charges, primarily incitement to violence.

The EU stayed heavily involved, talking to all sides, offering support to overcome the stalemate and seeking a fully inclusive solution. The High Representative travelled several times to Egypt, and also met Mr Morsi. An extraordinary EU Foreign Affairs Council on 21 August 2013 adopted conclusions conveying a firm message which condemned the violence and acts of terrorism, and called for an end to the state of emergency, the release of political prisoners and the restoration of the democratic process and respect for human rights. The Council also agreed to review EU assistance, emphasising that assistance (socio-economic support) to the Egyptian people and civil society will continue. Member States also agreed to suspend export licences for equipment which might be used for internal repression, to re-assess arms export licenses and to review their security assistance.

In line with the Egyptian interim authorities' road map commitments, an initial revision of the Constitution was prepared by a committee of ten legal and constitutional experts, and thereafter submitted to a committee of 50 appointed members, representing all sectors of society. Despite calls for inclusive political representation and invitations being issued to all political parties, only one Islamist (a member of the Nour Party) participated and no-one took part from the Muslim Brotherhood-supported Freedom and Justice Party (FJP). This was due to the Muslim Brotherhood considering the process not to be legitimate. In September, a court banned the Muslim Brotherhood and any related organisations and ordered their assets seized. In late December, the interim government made a political declaration, designating the Muslim Brotherhood a terrorist organisation.

In view of the upcoming constitutional referendum, the interim government invited the EU on 4 November to observe the poll. The referendum was held on 14-15 January 2014, and led to an overwhelming approval of the draft Constitution. However, voter turnout was relatively low (38.6 %) and very limited space was given to the opposition during the campaign, casting serious doubt on the fairness of the process and of the outcome. The Defence Minister, General Al Sissi, who played a pivotal role in the ousting of President Morsi, indicated that he may run for President, a testimony of the overwhelming influence of the Army in domestic politics. The EU will stay involved and is ready to send full Election Observation Missions to monitor both presidential and parliamentary elections. The necessary Memoranda of Understanding in this respect are being prepared.

The economic situation remained difficult. Despite multiple challenges, Egypt's economy had managed to regain some stability by November 2012. However, by mid-2013, the vulnerability of the economy had increased, following political instability, backtracking on the economic reform programme and the postponement of an arrangement with the IMF. Following the appointment of the interim administration in July 2013, some Gulf Cooperation Council countries swiftly provided significant financial support. However, there was almost no progress made on structural reforms aimed to correct Egypt's imbalances and improve its competitiveness.

In 2013, Egypt signed a regional Convention on pan-Euro-Mediterranean preferential rules of origin as recommended in last year's report.

Due to political events, Egypt did not address the remaining key recommendations contained in last year's ENP progress report, most of which are still pertinent. Consequently, on the basis of this year's report and to sustain implementation of the ENP Action Plan still in place, Egypt is invited to:

- ensure that the new Constitution is implemented in full respect for human rights and fundamental freedoms. National legislation should be compliant with the Constitution and with international standards;
- create conditions conducive to an active and independent civil society and adopt legislation on non-governmental organisations (NGOs) and amend the law regulating assembly in line with international standards;
- ensure the protection of women's rights and gender equality;
- ensure that regulations on the right of asylum are in line with the Constitution and international standards on migration and refugees' rights; effectively cooperate with UNHCR/IOM, including by giving them full access to detention facilities;
- address firmly the serious situation in the Sinai by closing down torture camps and by dismantling the criminal networks operating on the trafficking/smuggling routes within and towards the Sinai;
- organise genuine democratic presidential and parliamentary elections, in line with international standards;
- completely halt the use of military courts to judge civilians;
- ensure that investigations on the many cases of violence, including sexual abuse, are carried out and that the perpetrators are promptly brought to justice;
- ensure macroeconomic stability and strengthen public finance management in line with international standards and put in place necessary economic reforms;
- ensure and implement social safety net systems to protect the most vulnerable from the impact of reductions in commodities subsidies;
- ratify the regional Convention on pan-Euro-Mediterranean preferential rules of origin.

2. POLITICAL DIALOGUE AND REFORM

Deep and Sustainable Democracy

The first half of 2013 was tainted by the rushed constitutional process at the end of 2012, leading to the adoption of a Constitution through a popular referendum with a turn-out of 32%. Heavily criticised by the opposition, this process prompted a deeply divisive political crisis that culminated at the end of June in massive popular demonstrations throughout the country. Following an ultimatum imposed by the armed forces, Mohamed Morsi was ousted on 3 July 2013 and was put under house arrest.

In the aftermath of the ousting of former President Morsi on 3 July 2013, interim authorities issued a constitutional declaration that set a six-month timeline for the **election** of a new Parliament and President. It also called for the amendment of the Constitution by two committees, one of ten legal and constitutional experts and one comprising fifty members appointed with the stated intention of representing all sectors

of society. In the end, the latter included only one representative from the Islamist parties. Invitations were issued to all Islamist Parties, including the FJP which decided not to participate, since it considered the process to be illegitimate. The draft amended Constitution was submitted to the President on 3 December for approval, followed by public consultations and the referendum on 14-15 January 2014, by which the Constitution was formally approved.

The new Constitution removes most of Islamist references its predecessor contained, although it continues to limit the rights of worship to the three 'religions of the book'. It retains the separation of powers introduced in the 2012 Constitution and bolsters the rights chapter, while leaving many details to future legislation. It also ensures a high level of military autonomy, and continues to allow for military trials of civilians. Amendments made just before the text was sent to the President allow for alterations to the electoral timetable set out in the July 8 constitutional declaration, opening up the possibility of presidential elections preceding those for parliament.

Freedom of association remains a major concern. Prior to 30 June, a bill was on the agenda of the since-dissolved Shura Council. This bill contained restrictions on foreign funding and registration of international NGOs. The EU assisted Egypt work with the European Commission for Democracy through Law (Venice Commission) of the Council of Europe on preparing the NGO law, but the Venice Commission's suggestions were largely disregarded. The Ministry of Social Solidarity restarted the process of reviewing the NGO law by establishing a drafting committee of ten local NGOs. This committee produced a draft which continues to constrain the work of NGOs, notably regarding the registration of NGOs and international NGOs.

Early in 2012, a case was lodged against ten NGOs, accusing them of operating without a licence and receiving illegal funds from abroad. On 4 June 2013, all 43 foreign and Egyptian defendants were found guilty. Sentences included up to five years imprisonment, fines, the permanent closure of the NGOs concerned and seizure of their property. This landmark ruling increased the uncertainty and risks for foreign NGOs working in Egypt and for local NGOs that receive funds from abroad.

In September 2013, a court banned the Muslim Brotherhood and any related organisations and ordered their assets seized. In December 2013, the interim cabinet designated the Muslim Brotherhood as a terrorist organisation.

The forced dispersal of two pro-Morsi sit-ins on 14 August raised questions regarding **freedom of assembly**, when more than a thousand people were killed, including over one hundred security personnel. Reports show that while certain demonstrators acted violently, some carrying and using weapons, the security forces responded in a disproportionate manner, failing to sufficiently distinguish violent from non-violent protesters. A state of emergency was imposed for one month following the violent dispersal of the Muslim Brotherhood-supported sit-ins in mid-August. It was extended by another two months until 14 November, when it came to an end. The state of emergency was followed by laws restricting assembly. The law included a number of provisions widely considered problematic, including broad grounds for police suspension and dispersal of protests, constraints imposed on the choice of venue for demonstrations, worrying discretion in the use of force by the authorities and heavy fines for violations of

the new law. The law ignited further protest, followed by harsh reactions by the authorities, and led to **arrests and disproportionate sentences**.

During Mohamed Morsi's presidency, state media leaders were replaced by Muslim Brotherhood affiliates. **Press freedom** deteriorated after 3 July. TV channels deemed sympathetic to the Muslim Brotherhood were closed and many journalists were harassed, including foreigners. According to the Arab Network for Human Rights Information, ten journalists were killed by security forces and protesters between July and September, in the wake of President Morsi's ousting. Others were detained. Press freedom was further curtailed with restrictions on filming, including coverage of the trials of prominent Muslim Brotherhood members and the Morsi trial, and the suspension of satirical programmes.

As regards **transitional justice**, the authorities did not agree to allow the Office of the High Commissioner for Human Rights (OHCHR) to deploy human rights monitors to assist with investigations into the violence and killings during demonstrations, although they did permit OHCHR to establish a regional office in Cairo. The only fact-finding exercise which took place was carried out by the National Council for Human Rights. The report of the fact-finding committee set up by then-President Morsi to investigate abuses by security services since the 2011 revolution was submitted at the beginning of the year, but was not made public.

In 2013, the courts issued rulings considered controversial and perceived by some as politically motivated. Two draft electoral laws submitted by the legislative chamber in spring and considered adequate by expert bodies such as the Carter Centre, were rejected by the Supreme Constitutional Court (SCC). An administrative court annulled then-President Morsi's decree calling for parliamentary elections in April. The SCC also deemed the constituent assembly drafting the 2012 Constitution to be formed unconstitutionally, and challenged the law under which the Shura Council was elected. The Muslim Brotherhood finally registered as an NGO in spring 2013. In September of the same year, a court ruling banned the Muslim Brotherhood from being an NGO, and in December the interim Cabinet made a political declaration designating the Muslim Brotherhood as a terrorist organisation.

The practice of trying civilians in military courts continued throughout the year. In June, more than a thousand people were in prison following military trials. More than 60 civilians, primarily members of the Muslim Brotherhood, faced, or were convicted in, military trials after the change of government.

The **security sector** remained largely unreformed, and prone to abusive practices. Former President Morsi and the Muslim Brotherhood had spoken about reforming the security sector, but never acted on it, and the new regime did not tackle this issue. The Interior Ministry reinstated some of its most controversial departments, which had been dismantled after the 2011 Revolution.

The **military** held considerable sway over key political decisions in Egypt, following its pivotal role in the ousting of former President Morsi, albeit on the back of a massive popular uprising. The new Constitution envisages a high level of military autonomy,

giving the Supreme Council of Armed Forces the final say over appointments to the position of Minister of Defence. In addition, as was largely the case under the 2012 Constitution, the military budget will go before Parliament as a single budget item, and military trials of civilians will be accepted.

Other human rights and fundamental freedoms

In September 2013, Egypt approved the establishment of a regional office of the OHCHR in Cairo, after several years of negotiations. Egypt supported the agreed conclusions on the elimination and prevention of violence against women and girls from the 57th Commission on the Status of Women in March 2012. No progress was made with regard to standing invitations to (and requests to visit from) UN Special Rapporteurs.

The practice of violence and **torture** in the police and security sector remained largely unchanged in 2013. Reports of violations of human rights by the security forces were rarely investigated, despite statements that investigations would be undertaken.

No progress was made on **justice system reform**. The judiciary continued to suffer from significant dysfunction, particularly regarding its administrative capacity and recruitment processes. Judicial independence is a key element of the new Constitution.

There were several reports of **prisoners/detainees** being kept in inhumane conditions, with very few indications from authorities suggesting these conditions would be improved.

There were several incidents of incitement of violence against **religious communities**, leading to the killing of several people. In 2013, churches and other religious buildings were attacked, as were private properties. The response from state agencies was slow and ineffective.

The new Constitution safeguards **freedom of belief**, while simultaneously banning parties based on religion. Article 219 of the 2012 Constitution, which specified that the laws of Egypt would be based on Sharia law as prescribed by Sunni Islam is no longer part of the new constitution.

Cases of **sexual violence** against women, in particular during demonstrations, reached an unprecedented level. Investigations were not conducted. On the contrary, officials in the later-dissolved Shura Council blamed female protesters for exposing themselves to these risks by participating in demonstrations.

Child labour persisted and street children were subject to exploitation and sex trafficking. The currently suspended 2012 Constitution was widely seen as an obstacle to protecting **children's' rights**, with some articles seen as supporting early marriage and child labour.

No progress was seen on the **law regulating trade union activities**, which grants overarching authority to the government. A clause that specified that trade unions could not come under government management was amended in the new constitutional draft to add 'except by court order', thereby allowing the court system to impose state guardianship over trade unions.

Principles of **non-discrimination and equality** were included in the 2012 Constitution, but the new Constitution has emphasised these, adding ‘on the basis of race, sex, origin, language, religion, creed, or any other reason’ to the 2012 text.

Other governance-related issues

The Ministry for Administrative Development continued to provide technical support to national ministries and implemented the national e-government programme. Programmes addressed the improvement of public services and administrative simplification. Initiatives to improve national capacity for training and human resources were being implemented in partnership with key development partners, including the EU. The key challenge was to streamline existing programmes, in the absence of a national strategy on the reform of public administration. A draft law on civil service was pending.

EU programmes helped to implement a ministerial decree issued in 2010 on decentralisation.

The relationship between the Egyptian authorities and **civil society** deteriorated markedly during 2013, especially with human rights NGOs. A willingness to limit the voices of independent civil society organisations was seen in the NGO trials, arrests and disproportionate sentencing of human right activists and the new law on demonstrations.

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

Due to its geographical location and its historical legacy Egypt continued to play a **significant role on many common foreign and security policy matters in the region**. However, protracted political instability may have affected Egypt’s regional influence. On some matters of wider regional and global importance, most notably relating to Syria, Egyptian diplomacy had to give way to the economic powerhouses on the Gulf Cooperation Council.

The ousting of President Morsi led to a hardening of the Egyptian authorities’ position towards Hamas, which the new government deemed close to the Muslim Brotherhood. The Egyptian army significantly curtailed the once flourishing tunnel trade with the Gaza strip with Palestine. Furthermore, Egypt closed the Rafah crossing on several occasions. Operations against the tunnels went hand-in-hand with military operations in North Sinai against Takfiri and Jihadist groups that have recently proliferated there. These groups were using the largely lawless Sinai desert as a launch pad for their attacks against Israel, but increasingly also acting against Egyptian state interests west of the Canal. As a result of the ousting of former President Morsi, military operations were closely coordinated with the Israeli army. However, little was done to address the plight of migrants trying to reach Israel via the Sinai who are trapped in the region following Israel’s construction of a wall at the border. Reports of torture camps in the area, sometimes for the purposes of extracting ransom money from relatives of apprehended migrants, remained widespread.

The entry policy for Syrian refugees was tightened over the summer and many were deported or held in detention. As a result of alleged Syrian involvement in the recent political turmoil, there was a dramatic drop in the level of public sympathy for the Syrian community. There were reports of increasing numbers of verbal threats, physical assaults,

detention and deportation, leading many Syrians to flee to other countries, including in Europe. In mid-December, authorities released 171 Syrian and Palestinian refugees, detained since October, granting them three-month permits to stay in Egypt. Another 35 remain in detention, with their cases under review.

Egypt was suspended from the African Union following the ousting of former President Morsi. An African Union high level panel visited Egypt twice to assess the return to constitutional order. The panel's prevailing impression was that the roadmap had been rushed and was not being implemented in an inclusive manner. The panel's assessment was expected to lower the chances that Egypt's suspension would be lifted.

Egyptian diplomacy made its voice heard on a range of disarmament and non-proliferation issues, most notably on the subject of a weapons of mass destruction-free zone in the Middle East.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy¹

In spite of the fragile political and security situation and continuing potential for disruptive risks to the economy, a number of indicators (the stock exchange, the exchange rate, reserves) showed some signs of stabilisation. However, the underlying macroeconomic situation remained very weak and fragile.

The uncertainties triggered by the January 2011 revolution, the ousting of President Morsi in July 2013 and the subsequent social instability and violence continued to affect the economic situation in Egypt. Real GDP growth in the 2012-2013 fiscal year reached 2.1%, a slight decline from 2.2% in the 2011-2012 fiscal year. Inflation, which remained subdued in 2012, picked up considerably in 2013, reaching 9.5% by end 2013, partly on the back of monetary easing policies by the central bank. Food and beverage inflation peaked at 19% end-November 2013 and averaged 15% in the July-December 2013 period.

The fiscal deficit ballooned to 13.8% of GDP in the 2012-2013 fiscal year (up from 10.8% the year before, and against a budget projection of 9.8% of GDP) on the back of weak economic activity, increased subsidies and social transfers, debt repayments and salary increases. The Government announced the implementation of two fiscal stimulus packages (in September and October 2013), amounting to a total of EGP 60 billion (EUR 6.3 billion or 3% of GDP) to help reactivate the economy. Meanwhile, it is maintaining the budget deficit at the currently targeted 10% in 2013-2014.

On the external side, the balance of payments remained vulnerable. The current account deficit for 2012/13 was estimated at 1.9% of GDP, which represented an improvement over a deficit of 3.9% in the previous fiscal year, mainly supported by a drop in the trade deficit, a recovery in tourism revenues, a continued strong inflow of remittances, inflows of official assistance and a significant slowdown in portfolio investment outflows.

¹ Figures are from the national statistical office, the central bank, the IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

Reserves reached a low of USD 13 billion in May 2013 (from a peak of USD 36 billion in December 2010). However, official inflows from Qatar and Libya to the Morsi government, estimated at USD 8 billion, followed by combined pledges of USD 16 billion from Saudi Arabia, Kuwait and the United Arab Emirates since July 2013 (of which USD 10 billion are estimated to have already arrived), eased financing pressures on the government, helping reserves climb to USD 18.9 billion in August. Since then, due to loan repayments to Qatar, an increase in the amount of foreign exchange offered to the market, and the negative current account fundamentals, reserves decreased to USD 17 billion by end-December.

Total government debt reached 92% towards the end of 2013. Debt servicing represented a significant 26.3% of the total budget for 2012-2013; it included a particularly costly domestic portion with a short maturity profile.

The working level agreement reached with the IMF in November 2012 to enter into a USD 4.8 billion stand-by arrangement was never approved by the IMF Board, as then-President Morsi decided to withdraw the request. The new government has not expressed any intention of pursuing talks with the IMF.

Social situation, employment and poverty reduction

Unemployment remained a major problem and, according to official figures, increased from 12.3% in 2012 to an estimated 13.4% in 2013. The unemployment rate remained critical in the light of Egypt's demographic structure, with young people representing the vast majority of the population. Youth unemployment reached 22.1% for the 25-29 years old and 46.4% for the 20-24 years old.

The latest household income, expenditure and consumption survey showed an increase in **poverty**, with 25.2% of the Egyptians living below the national poverty line, and 23.7% hovering just above it. On the positive side, extreme poverty went down to 4.8%. Poverty continued to show regional disparities (poverty in Upper Egypt continued to affect 50% of the population) and remained largely in rural areas (where 78% of the poor lived), although poverty in urban areas was on the rise.

Prominent trade unionists were appointed as ministers in the interim government (the Minister for Manpower and the Minister for Social Solidarity), a move widely seen as an expression of the transitional government's commitment to reforms in the social sector. A draft law on minimum/maximum wages was prepared.

The EU actively supported **rural development** in Egypt. Ongoing and planned programmes in this field aimed to help reduce youth employment and rural poverty in the most vulnerable areas of the country. Activities to improve access to services and employment in deprived urban areas were expected to receive increased EU funding.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU was Egypt's main trading partner in 2012.² Bilateral trade flows increased to EUR 24 billion in 2012 and have more than doubled since the entry into force of the Association Agreement (i.e. from EUR 11.5 billion in 2004). EU exports to Egypt consist mainly of machinery and chemicals. EU imports of goods from Egypt were dominated by energy, followed by chemicals, and textiles and clothes.

In June 2012, the EU and Egypt launched a dialogue on a Deep and Comprehensive Free Trade Area (DCFTA) but Egypt showed little interest in the matter. A bilateral meeting for the presentation of the DCFTA content took place in Cairo in June 2013 and a Trade and Sustainability Impact Assessment was launched at the beginning of 2014, the results of which will be helpful for policy decisions on Egypt's side. However, after the events of July 2013 the DCFTA dialogue with Egypt was on hold.

Egypt has yet to notify the EU of the completion of its domestic procedures for the entry into force of the Protocol on the Dispute Settlement Mechanism signed in November 2010.

In March, Egypt increased World Trade Organisation (WTO) applied tariffs to bound levels for approximately 100 luxury products and products with a local equivalent. Egypt also capped WTO duties on imports for the tourism industry, transport and environmental products and some inputs for the assembly industries. An import ban on cotton, imposed by Egypt in October 2011, was officially lifted in March 2012 but a *de facto* import prohibition remained in place until March 2013.

In June, Egypt lifted precautionary **safeguard measures** applied to sugar (17% additional duty on raw sugar and 20% on white sugar) and to steel rebars (6.8% additional duty), as the 200 days allowed for safeguard investigations by the WTO expired. The investigation on sugar was officially concluded in August, and Egypt decided not to apply definitive safeguard measures.

In the first quarter of 2013, Egypt finished updating its **Customs Code** and preferential tariff rates, which were updated from HS 2007 to HS 2012. In October, Egypt signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin.

Little progress was made on **free movement of goods** and **technical regulations**. In November 2012, the EU and Egypt signed a trade and domestic market enhancement programme (TDMEP), which will help to support Egypt in preparing for potential DCFTA negotiations and on matters relating to the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Complementing the TDMEP, a number of ACAA-related twinning initiatives were planned, including support for the National Institute of Standards on metrology, a phase II twinning with the Egyptian Accreditation Council, and support for the Egyptian Organisation for Standards. However, only limited progress was made on preparations for the ACAA. The Egyptian Accreditation Council has signed a mutual recognition agreement with the international accreditation bodies ILAC/IAF, and a contract of cooperation with the European Accreditation body EA (it has been an associate member since November 2011). The

² Data for 2013 was not available at the time of writing.

Egyptian Organisation for Standards became an affiliate of CENELEC, the European body for electrotechnical standardisation.

There were no major developments in the regulatory framework of **sanitary** and **phyto-sanitary** issues.

In March, a decree banning the **establishment** of tourism companies expired and was not renewed. A decree on the integrated development of the Sinai Peninsula came into force in March, restricting land ownership in the Sinai to single-nationality Egyptians who were born to Egyptian parents, and to corporate entities fully owned by Egyptians. Any Egyptian who acquired a second nationality would be obliged to sell his land or property, and usufruct rights were reduced from a maximum of 99 years to 50 years. There were no substantial regulatory changes on **company law**.

A number of **business climate** issues persisted, namely around physical security, an uncertain legal and political framework, unreliable energy and water supplies, unclear labour laws and large payment arrears. Several rulings on past privatisations by administrative and civil courts raised questions about judicial authority, and on the compatibility of these decisions with Egypt's international commitments on investment. Compared to the previous year, Egypt fell to 128th place (out of 189 economies) in the ranking for ease of doing business in the World Bank's 'Doing Business 2014' annual report. Egypt fell to 118th place, out of 148, in the World Economic Forum's 'Global Competitiveness Report 2013-2014'. It was ranked very low on indicators such as the business cost of terrorism and organised crime, the intensity of local competition, the effectiveness of anti-monopoly policy, trade tariffs and the prevalence of trade barriers. Other major obstacles to doing business were government and political instability, crime, access to financing, and corruption. A recent verdict by Egypt's Council of State, reversing the privatisation of a textile factory, has created a precedent that will potentially affect many foreign companies, including many European investments.

In May, Egypt legislated on **financial services**, enacting the first law on Islamic bonds (*sukuk*). This allowed the government to issue *sukuk*, which under Islamic principles are forbidden from paying interest. The law regulates the issue of *sukuk* bonds as a financial instrument that could be used to finance particular projects.

Restrictions remained in place on **movement of capital** abroad, in order to lower the impact of the deficit in the balance of payments and to prevent the outflow of foreign currency. In addition, Egypt set a limit of USD 10 000 for travellers entering or leaving Egypt. In March, the Central Bank eased some of the restrictions on foreign investors wishing to repatriate dividends. In April, a banking law was amended to ease the earlier restriction, requiring travellers to declare the amounts over USD 10 000 held when entering the country and allowing a maximum of USD 10 000 when leaving the country.

Other key areas

In May, a new law set all corporate **tax** rates at 25%. This particularly affected companies with an income below EGP 10 million, which had previously been taxed at 20%. Income tax provisions were also amended, grouping taxpayers into five segments and exempting those with an annual income below EGP 5 000 from paying tax.

There were no substantial regulatory changes on **competition policy**.

There were no major developments in the regulatory framework on **intellectual property rights**.

Procurement legislation remained unchanged, although Egypt was preparing a revision of the law to bring it more in line with international standards.

In order to meet the need for **statistics** on trends, causes, determinants, dynamics and consequences of international migration, Egypt carried out fieldwork for a new innovative survey. Preliminary results are expected in 2014.

Little progress was made in strengthening **public internal financial control**, nor more generally on technical reforms to public financial management. A Sigma mission visited Egypt to discuss support for developing an **internal audit** system. Progress on contracting EU-financed technical assistance on budgeting, internal audit and treasury management was slow, due to high managerial turnover at the ministry. The 2012 Constitution included, for the first time, provisions on the role and functioning of Egypt's Supreme Audit Institution, but no law was enacted to implement these before the Constitution was suspended.

Preliminary findings of an assessment of the **small and medium-sized enterprise** (SME) policy environment were discussed in June, with reference to the Euro-Mediterranean Charter for Enterprise and the Small Business Act for Europe. This assessment was completed later in 2013, and its findings will be made available in 2014. The preliminary conclusions showed that the overall operational environment for SMEs has recently deteriorated, mostly due to macroeconomic and social factors. The institutional framework remains fragmented with SME policy responsibilities assigned to several institutions with limited coordination between them. There is no comprehensive medium-term SME strategy, and support for innovative enterprises is at an early implementation phase. There have been improvements in the regulatory framework for access to finance, notably with the extension of the activities of the credit bureau. However, private enterprises, who already have only limited access to bank financing, are increasingly crowded out by public borrowing at high interest rates. Egypt re-launched its participation in the Enterprise Europe Network. Egyptian and European focal points were appointed to implement the letters of intent signed in November 2012, strengthening cooperation between Egypt and the EU in the areas of SMEs, standardisation, industrial development and tourism. At regional level, Egypt contributed to implementing the 2013-2014 work programme on Euro-Mediterranean industrial cooperation and exchanged good practice on SME development and in the textiles and clothing sector.

A new law on **consumer protection** was drafted with support from a twinning project. The lack of a legislature in the country, however, delayed its adoption. The twinning project also helped to build the capacity of the Egyptian Consumer Protection Agency and NGOs active in market surveillance and consumer protection. The Egyptian Consumer Protection Agency reinforced its presence in international networks, namely

the Organisation for Economic and Cooperation and Development and the International Consumer Protection Enforcement Network.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Concerning **asylum** issues, according to the UN High Commissioner on Refugees (UNHCR) 129 031 Syrian nationals were registered in Egypt as of 7 December 2013. There are estimates indicating that there are over 300 000 Syrians in the country. Following the ousting of President Morsi and the formation of an interim government, the entry policy for Syrians was tightened. Increasing numbers of Syrian nationals were deported or returned to their country on arrival at official border checkpoints. There were also reports of Syrians being subject to verbal threats and physical assaults, and of individuals, including vulnerable people, being detained in police stations in sub-standard conditions. Since August, more than 500 Syrians have left Egypt every month, seemingly because of this deterioration in conditions.

Hundreds of African nationals (most of them Eritreans) were reportedly detained in police stations in Sinai in conditions that fall well below international minimum standards. Egypt continued to refuse the UNHCR and the International Organisation for Migration access to detention centres and police stations in Sinai. This makes it extremely hard for NGOs to operate effectively in the region. About 2 000 people were estimated to be held in detention centres in Sinai.

Human trafficking and smuggling in Sinai remained a matter of serious concern. Migrants and refugees, primarily from Eritrea and Sudan, were being held for ransom. Some of them were subjected to torture by human traffickers and other criminals. Following Israel's construction of a wall at the border, many migrants trying to reach Israel were stranded in the Sinai with no protection. While 'torture for ransom' had been an incidental smuggling phenomenon, this became more widespread, with active kidnapping (from within Egypt or on the Egyptian-Sudanese border) taking place for this sole purpose. Cases of selling people to other criminal networks for further ransom after an initial ransom has already been paid are also being reported. Evidence is also emerging that EU citizens may be involved, either as victims of extortion due to family links with the apprehended migrants or as potential intermediaries, connecting criminal networks to migrants' relatives to facilitate the transfer of the ransom money.

The Anti-Narcotics General Administration (ANGA) oversees national counter-narcotics operations in Egypt. Large-scale seizures and arrests related to opium, hashish, marijuana, and psychotropic pills, particularly tramadol. Concerning cooperation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), despite the reiterated interest expressed by the Ministry of Health of Egypt in the work on data collection, treatment and prevention and its participation in several events during the previous years, no progress has taken place so far. There is still some awareness raising needed in order to get the institutional support for such a cooperation.

At the beginning of 2013, the Ministry of Justice proactively engaged in **judicial cooperation**. For the first time, judges from Egypt took part in all events organised within the framework of the Euromed Justice III regional programme. However, since

September, there has been no participation of Egyptian judges and legal experts in seminars or events held in the framework of EU-funded regional or bilateral programmes. Egypt should be further encouraged to participate in these activities.

There were no developments regarding Egypt's accession to certain Hague Conventions, such as the conventions on judicial assistance (1965 Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters and the 1970 Convention on the Taking of Evidence Abroad in Civil or Commercial Matters) and on child protection (1980 Convention on International Child Abduction and 1996 Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in respect of Parental Responsibility and Measures for the Protection of Children).

6. TRANSPORT, ENERGY, CLIMATE CHANGE, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

In the area of **transport**, the feasibility study for a mass transit system linking Tenth of Ramadan City to Cairo was finalised in October. In the framework of the transport sector policy support programme, reports on the Ministry of Transport's organisational structure and the new organisational chart of the river transport market regulation team were submitted to the Ministry. Two presidential decrees on land transport came into force, setting out the regulatory authority for transport in Greater Cairo and the regulatory authority for passengers and freight transport on highways. In the field of inland waterways, the first assignment for electronic data interchange specifications for Damietta Port (linking the sea with river freight) started in October.

The EU continued to support regulatory reform in the **energy** sector. However, no payment was made under the Energy Budget Support operation in 2013.

The Helwan South project, which seeks to increase power generation capacity in Egypt, was approved by the World Bank in June. Technical assistance for this project supported energy subsidy reform and better governance of the energy sector, and encouraged the use of renewable power generation technologies. In July, the EU approved funding for a feasibility study of a 20 MW photovoltaic power plant.

Egypt published a study on **climate change**'s potential economic impact on Egypt and also published a national inventory of greenhouse gas emissions. This work was supported by the EU. The newly launched regional technical assistance project for climate action, Clima South, deployed a fact-finding mission to Egypt, which requested additional support for adaptation efforts.

A decree was drafted creating an independent public agency within the Ministry for **Environment**, the General Executive Agency for integrated solid waste management. The EU earmarked EUR 20 million for a new project to assist Egypt in the field of solid waste management. In July, the government abolished the Ministry for Utilities, Drinking Water and Wastewater, returning responsibilities for regulation, investment, and provision of services to the Ministry of Housing, Utilities and Urban Development. The EU provided assistance for the Government's introduction of an innovative scheme to recharge treated wastewater into the Egyptian aquifer with a view to enhancing water

management. In November, the European Investment Bank approved funding for expansion of wastewater handling in Kafr El Sheikh Governorate, as part of the integrated pollution reduction programme for Lake Burullus. Egypt participated in EU-funded regional projects including the sustainable water integrated management project, projects falling under the Horizon 2020 initiative for the de-pollution of the Mediterranean and the shared environmental information system support project led by the European Environment Agency. Egypt continued to participate in the technical assistance EU-funded project on the **Integrated Maritime Policy** in the Mediterranean (IMP-MED). No payment was made under the EU's Water Budget Support operation in 2013.

In the area of **civil protection**, the second phase of the flagship programme for Prevention of, Preparedness for, and Response to Natural and Man-Made Disasters (PPRD South II) was launched in September, aiming to build a sustainable system of prevention, mitigation and management of man-made disasters in the region.

On **information society**, in January Egypt's 2013-2017 information and communications technology strategy was published. This strategy aims to support e-governance through innovative technology applications. In the first half of 2013, the telecommunication regulatory authority (NTRA) approved measures on mobile money and an additional spectrum for mobile operators in May 2013, and also approved measures on automatic location of vehicles. Egypt pursued cooperation with the EU on information society policy, and participated in an EU-South Mediterranean seminar on e-signatures in November 2013. Both the NTRA and the Information and Communication Technology Ministry participated in the first EU-South Mediterranean senior officials' meeting on electronic communications and the information society in November 2013 in Athens, Greece.

No significant progress was made on **audiovisual policy**. No comprehensive policy was issued on the audiovisual sector and censorship remained an issue to be addressed. The Egyptian film industry witnessed economic concentration and homogenisation of distribution and production. Independent productions often struggled to get financed. The EU supported Egypt's audiovisual sector through the Euromed Audiovisual III programme.

In the field of **research and innovation**, progress was made on integrating Egypt into the European Research Area. Under the EU's research, development and innovation (RDI) II programme, the Egyptian Ministry of Scientific Research put in place a network of contacts for the EU's Seventh Framework Programme for Research and Technological Development (FP7). EU-Egypt cooperation was also pursued through the EU-Egypt innovation fund. This fund focused on projects corresponding to Egypt's innovation objectives, including in the fields of energy, water, information and communication technology, environment, biotechnology, health, Space, manufacturing industries, food, agriculture and education. The total value of grants under innovation fund is expected to reach EUR 10,5 million.

In 2013, there were 92 FP7-funded projects, with 56 Egyptian partners and 117 Egyptian participants. The total EU contribution to these projects reached over EUR 330 million,

with more than EUR 13 million going to Egyptian partners. The EU-Egypt science, technology and innovation cooperation portal was launched in October as part of the EU FP7 BILAT project on shaping Egypt's participation in the European research area and cooperation action (ShERACA). A new project ShERACA+, funded under the FP7 INCO programme, started its activities in October to support institutional dialogue and collaboration between Egypt and the EU in the areas of research and innovation.

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

Education was declared as a priority area by both the 2012 government and the interim government that was appointed as a result of the ousting of President Morsi in July. Despite this, there was little progress on implementing much-needed reforms in this sector. The transitional interim government proposed to extend for a further two years the 2007-2012 national strategic plan for pre-university education reform, which had proven to be over-ambitious. It also suggested developing a national education strategy covering the period up to 2022. The final payment of EU budget support funds (expected in May) to support the implementation of the 2007-2012 strategy was not released in 2013 due to non-compliance with general conditions placed on budget support operations relating to macroeconomic stability and improvements in public financial management.

As part of the national programme for economic development and social justice during the transitional period, the government proposed to put in place accelerated measures on education to help disadvantaged families face the exceptional economic situation. During then-President Morsi's government, under the Constitution approved during his mandate, plans were made for a Supreme Education Council, although these were never finalised. The EU launched a twinning programme to build capacity in the National Authority on Accreditation and Quality Assurance for Education (NAQAAE).

Technical and vocational education and training (TVET) continued to be a major concern in Egypt. Between July 2012 and July 2013, the government prepared several proposals to revamp the Supreme Council of Human Resources Development and to set up a National TVET Authority, both of which were still pending at the time of President Morsi's ousting. Subsequent proposals by the interim government to establish the National TVET Authority were suspended by the Prime Minister until the new People's Assembly was in place. The EU supported TVET reform through the TVET I Reform Programme (EUR 33 million); the second programme, TVET II (EUR 50 million) was signed in December; the Egyptian administration has yet to grant internal authorisation for the programme.

Egypt remained very active in the **Tempus** and **Erasmus Mundus** Programmes. The number of Tempus projects including Egyptian partners increased from 12 in 2012 to 16 in 2013, thanks in part to the budget increase for the Southern Mediterranean region and the growing experience in Egyptian higher education institutions of working with the programme. One third of the projects (which corresponds to six projects) selected in 2013 were coordinated by an Egyptian partner, which is a very positive development. Egyptian students and staff received 159 **Erasmus Mundus** scholarships to study at a European higher education institution. In addition, 64 masters students and three doctoral

candidates were awarded scholarships to take part in Erasmus Mundus joint programmes of excellence. Since 2007, 50 researchers have benefited from Marie Curie actions, involving 39 Egyptian organisations.

Egypt still lacks a national youth policy. The implementation of the **Euromed Youth programme** was extended, to support more activities by youth organisations. Under the **Youth in Action** programme, 93 projects were supported, benefiting 293 Egyptian young people.

Lack of access to **culture** in Egypt remained an important issue. The Minister of Culture tried to generate consensus on the basis for developing a cultural policy, and discussions on illicit trafficking of cultural heritage took place, involving the EU, Egyptian authorities and UNESCO. At the request of the Egyptian authorities, the EU launched two measures, to fight against the illicit trafficking of cultural goods, and to improve the management of world heritage cities. The implementation of Egypt's international commitments to protect cultural heritage remained challenging because of the lack of sufficient capacity in the relevant departments within the Ministry of Culture and the Ministry of Antiquities. Authorities faced difficulties in preventing the looting of unique cultural sites, with the robbing of the Malawi National Museum in Upper Egypt in Minya in July, and the destruction of several monuments of religious importance, including churches and mosques in Upper Egypt, Fayoum and Cairo. A workshop was organised involving stakeholders from the cultural sector, as part of the consultation process for the Preparatory Action on 'Culture in EU External Relations'.

Modernisation and standardisation of public primary health care remained a top priority for the government, with a change of Health Minister in July and continued reform of public primary healthcare, which continued to benefit from the EU-funded EUR 110 million health sector policy support programme II, which started in 2010 but which did not make any payment in 2013.

Egypt continued its participation in the EU-funded 'Episouth Plus' project, which aims to enhance health security in the Mediterranean region and South East Europe. Policy-makers from Egypt attended a multi-country workshop on the EU *acquis* on prevention and control of communicable diseases, as well as in the EU-supported Mediterranean programme for intervention epidemiology training project (MediPIET, which supports training infrastructure and a regional network of competent field epidemiologists in order to manage cross-border health threats).