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**Implementation of the European Neighbourhood Policy in Egypt
Progress in 2011 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**

Delivering on a new European Neighbourhood Policy

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on progress made on implementation of the EU-Egypt ENP Action Plan between 1 January and 31 December 2011, 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 in the context of the Partnership for Democracy and Shared Prosperity, readers should also refer to the Partnership for Democracy and Shared Prosperity Progress report.

Egypt experienced profound change and daunting political and economic challenges in 2011. After the 25 January democratic uprising toppled the authoritarian regime, the Supreme Council of the Armed Forces (SCAF) took over presidential, legislative and executive powers in the country as a transitional measure and was charged with stewarding the country toward meeting the legitimate requests of the people for political freedom, respect for human rights and better socio-economic conditions.

In the event, an interim cabinet of ministers was set up and Egypt saw several changes over the year. The electoral system was reformed. Parliamentary elections were organised between November 2011 and February 2012 in a generally free and transparent manner and resulted in Islamic parties taking a strong lead in parliament. The focus is now on drafting a new Constitution and electing a President. Following some domestic debate, SCAF has announced that it will hand over power on July 1st 2012 following Presidential elections which will be held in May and June.

During the transition period the military's respect for basic human rights and democratic standards has not been satisfactory. Police and military personnel who resorted to excessive use of force during the demonstrations, notably against women, have yet to be investigated. Thousands of activists were arbitrarily detained. Military courts were used to try activists and bloggers. Reports of the use of torture and degrading treatment in detention and prison have continued. That said, SCAF has announced pardons for some 2,000 people sentenced by military tribunals. However, more than 1,400 remain in military jails. In addition, the situation of foreign-funded civil society organisations (CSOs) has become precarious with the interim Egyptian authorities launching a public campaign and investigations against them.

Most of the staff of the disbanded State Security Investigation Office were simply transferred to the new National Security Service and, more generally, security sector reform remains a major challenge. Attempts were made to bolster the privileged position of the military by establishing "supra-constitutional" principles aimed at keeping its budget outside civilian control and giving it legislative veto power over laws related to the army. The proposals created a public outcry and were blocked.

On the other hand, the state of emergency was partially lifted in January 2012.

While the Egyptian economy was generally resilient to the worldwide economic and financial crisis, it was severely affected by the people's uprising, the subsequent social unrest as well as by the war in neighbouring Libya. Economic activity first contracted significantly in Q1 2011 and remained subdued for the remainder of the year, with the fiscal balance being affected. Revenue from tourism, representing 11% of GDP fell by

about a third, and international investor confidence was dented, leading to large outflows of portfolio investments and to diminished Foreign Direct Investment. The Balance of Payments, led mainly by capital account deficits, has deteriorated markedly during the period. As a result, the stock of foreign reserves halved since January 2011 in the face of strong depreciation pressures of the Egyptian pound. Access to external sources of financing is thus essential. Official unemployment, already high in previous years, increased to 12.4% by end 2011.

Ongoing political and economic uncertainty meant that progress on the structural reforms outlined in Egypt's Action Plan was limited. On the positive side, the work to overcome technical barriers to exports advanced when Egypt became an associate member in the European cooperation for accreditation, the process for creating a business was simplified and a competition authority was set up. Following the 2011 events the need for thorough social and economic reform has become more evident than ever. The interim authorities have been unable to engage on achieving long-term objectives. This is something that they prefer to leave to a democratically elected government when it takes office. For this reason, few advances were made during the reporting period, although some progress was registered on health reform including further rolling out of the Egyptian 'family health model'.

No progress was achieved on trade-related issues or on market and regulatory reform. The EU adopted on 14 December negotiating directives for a Deep and Comprehensive Free Trade Area (DCFTA). However, the interim Egyptian authorities are not ready to engage, given their limited mandate. Similarly, they have declined the offer made by the EU to start a dialogue on Mobility, Migration and Security, in order to conclude a Mobility Partnership.

On the basis of this year's report and to sustain implementation of the ENP Action Plan in 2012, Egypt is invited to:

- Ensure that all powers are handed over to a civilian administration and that the state of emergency is fully lifted before the presidential elections.
- Draft and adopt, following an inclusive drafting process, a democratic constitution that enshrines respect for human rights.
- Discontinue the use of military courts to judge civilians.
- Create the conditions conducive to an active and independent NGO community and adopt NGO legislation in full compliance with international standards.
- Preserve the freedom of religion and protect minorities.
- Design and implement an Economic Reform Programme that ensures macro-economic stability and strengthens public finance management, in order, inter alia, to open the door to international financial assistance, including EU Macro-Financial Assistance.
- Sign and ratify the regional Convention on Pan-Euro-Mediterranean Rules of Origin.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

The removal from office of former President Mubarak, the abolition of the 1971 Constitution and the dissolution of Parliament effectively created a legal vacuum. The military, represented by the Supreme Council of the Armed Forces (SCAF), took over power in the interim and has ruled by decree. An interim cabinet of ministers appointed by SCAF was also put in place and has seen several changes in the period. Initially, SCAF committed to a transition to democratically elected civilian government by the end of 2011. However, the timeline was extended significantly, with a full transition to civilian rule, i.e. both an elected parliament and an elected president, only expected around mid 2013. The outbreak of country-wide protests in late November forced SCAF to accelerate the timeline by holding two rounds of parliamentary elections to the upper house (Shura Council) instead of three, and Presidential elections by the end of June 2012. In March, a few constitutional amendments, mainly linked to presidential elections, were adopted by referendum with a majority of 77.2%. This was Egypt's freest vote in decades. Despite criticism from civil society that the amendments did not go far enough, they represent a major improvement on the Mubarak period.

In preparation for the **parliamentary elections**, SCAF issued a new law facilitating the process of establishing new political parties and a new law defining citizens' political rights. This includes a Higher Electoral Commission made up entirely of judges. The law also allows voting on the basis of national identity cards, rather than the voter cards issued at every election. Parliamentary elections to the lower house, the People's Assembly, were organised in three rounds between the end of November 2011 and mid January 2012.

Egypt declined the EU offer to field a fully-fledged election observation mission for the parliamentary elections but allowed seven international NGOs to 'follow' the elections. According to observers, there was no systematic, large-scale vote rigging. The elections saw the Muslim Brotherhood's Freedom and Justice Party emerge as the largest party with 47% of the seats, the Salafist El Nour party second with 24% and the centrist New Wafd party third with 8%. These figures may be marginally adjusted in the light of ongoing legal challenges. The EU is supporting the electoral process by providing financial support to Egyptian civil society organisations to train over 1000 election observers, raise voter awareness and build capacity for the Electoral Commission.

In January 2012, SCAF partially lifted the **state of emergency** that had been in place for more than four decades. However, many other measures taken by SCAF during this transition period fall short of democratic standards. Activists and bloggers arrested, for example for 'defaming the military', have been judged by military tribunals, thus violating their right to a **free and fair trial**. Furthermore, in an effort to secure a privileged position, SCAF raised the idea of 'supra-constitutional principles' that the future constitution should enshrine. Such principles would include the absence of any **civilian and democratic oversight of the military budget**. The issue is still open and is not likely to be resolved before the drafting of the constitution.

The excessive use of force against demonstrators and restrictions on **freedom of assembly** remain a major concern. As regards **freedom of association**, the situation

of foreign-funded civil society organisations has become precarious. The authorities launched a public campaign and investigations targeting civil society organisations funded by international donors. On 29 December, security forces stormed the offices of ten NGOs — in particular US-funded, but also EU-funded organisations. The offices were closed down and documents and computers were seized. At the time of drafting of this report, the issue is still not fully resolved despite international reactions, including a statement by the High Representative of the Union for Foreign Affairs and Security policy which called for an immediate halt to the harassment of NGOs working in Egypt.

Current NGO legislation contains a large number of unclear legal provisions that do not favour transparency and accountability. The initial draft law tabled by the authorities was highly criticised by the NGO community. New drafts are now being discussed in parliament. The NGO Federation had lost ground in the past year but is now being re-established as a key interlocutor with the authorities. EU funding for ongoing projects supporting civil society organisations amounts to EUR 12 million.

Likewise, **freedom of expression** remains a cause for concern. At the beginning of the uprising, the authorities blocked several social networking websites that covered the peaceful demonstrations. The police force, instructed by the previous Minister of Interior, carried out violent attacks on local and international reporters. Some journalists died and many were arrested. Civil society organisations have reported restrictions on **media freedom**. Pressure has been put on media operators to refrain from publishing criticism of the government and bloggers have been arrested, detained and sentenced for criticising the military.

Reducing **corruption** remains a major challenge, as indicated by the fact that Egypt continues to fall down the ranking of the Transparency International Corruption perception index. It has fallen 14 positions since 2010 and it is now 112th.

Regarding **security and law enforcement sector reform**, the State Security Investigation Office (SSI) was dissolved in March and has become the National Security Service (NSS). The government announced that the NSS would be subject to judicial oversight and only work as a civil intelligence-gathering agency. Civil society organisations report that, despite earlier promises, SSI officers involved in torture were redeployed in the new National Security apparatus, albeit in different positions. Egypt has not yet taken up an EU offer to assist with security sector reform.

Other human rights and governance-related issues

Since Egypt's acceptance of most of the recommendations in the **Universal Periodic Review** (UPR) in June 2010, limited progress was made in 2011 on implementing these recommendations.

The **death penalty** continues to be considered an effective criminal deterrent in Egypt. There is little official data on the number of death penalty sentences and persons executed in Egypt. However, during recent months there has been an increase in the number of death sentences issued in martial courts. Furthermore, prosecutors have demanded the death sentence for ex-President Mubarak, the former interior minister, and a number of senior police officers.

The Egyptian definition of **torture** as a criminal offence does not yet fully comply with the UN Convention against Torture. During the revolution, hundreds of people claimed to have been subjected to torture. Egypt's interior minister has ordered investigations.

Women continue to face discrimination. Egypt still lacks a legal environment to protect girls and women from violence, encourage them to report attacks, and deter perpetrators from committing abuses against them. Female activists have been victims of violence by security forces. International NGOs have received reports from female protesters indicating beating, electric shocks, strip searching while being photographed by male soldiers, forced 'virginity tests' and threats of prostitution charges. It is still difficult for women to participate in political life. In addition, the law on parliamentary elections did not include the quota for women established under the previous regime.

The situation concerning **children's rights** has not improved and some children also endured violence during the revolution. There are reports on the increasing number of street children in Egypt exposed to sex trafficking and forced begging.

Concerning the **freedom of religion**, a number of incidents of sectarian violence took place, particularly in the first half of 2011. In June, Egyptian churches welcomed the draft law on places of worship, through which building applications will be speeded up. Following the Maspero events in October — an initially peaceful Coptic demonstration that eventually turned very violent with several casualties — the Ministry of Justice announced that it would begin reviewing disputed permits for church construction.

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

Increased tensions with Israel culminated in a border incident in August and the storming of the Israeli Embassy in Cairo in September. Egypt remained an active partner in the Middle East Peace Process in 2011. Thanks to continued Egyptian reconciliation efforts, most Palestinian factions signed on 4 May in Cairo a memorandum of understanding marking a concrete step towards Palestinian reconciliation. The Egyptian authorities were also directly involved in a prisoner swap that included the Israeli soldier Gilat Shalit.

The Egyptian authorities played an important and constructive role during the Libyan crisis, especially in facilitating much needed humanitarian assistance and repatriating expatriates from Libya.

Egypt has also signalled re-engagement on its Africa policy with several visits to Egypt's sub-Saharan neighbouring countries, stressing Egypt's wish to reaffirm stronger relations with all countries of the African continent. Egypt actively supported the continued unification of Sudan and contributed, with other partners, to development and reconstruction programmes and work in Darfur. Since the 25 January uprising, Egypt has intensified its efforts to find a negotiated solution to the Comprehensive Framework Agreement of the Nile Basin Initiative.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

The economy was severely affected by the democratic uprising and the subsequent unrest. The fiscal situation deteriorated rapidly, as did the stock of foreign reserves as the authorities fought to defend the managed float from strong depreciation pressures. As a consequence, the administration is increasingly reliant on external financing. Ongoing political and economic uncertainty meant that little progress was made towards the structural reforms outlined in Egypt's Action Plan.

Domestic activity fell following widespread strikes and the closure of shops and banks; tourism revenues (around 11% of GDP) dropped by about 33%. The Stock Exchange closed for 55 days and lost about 40% of its capitalisation by the end of March. The conflict in neighbouring Libya led to a drop in remittances and the return home of many Egyptian migrant workers. As a result, real GDP fell to -4.2% year-on-year in Q1 and official unemployment rose to 12.4% by end 2011 (from 8.9% in Q4 2010).

The economy began to rebound in Q2, growing by 0.4% year-on-year as the construction, transportation, manufacturing and retail sectors all re-expanded. However, economic performance was hit once more by further domestic unrest during the parliamentary elections at the end of the year.

Inflation was high and rose between in January-June 2011, due to domestic food-market inefficiencies and the continued rise in international commodity prices. As a result, the Central Bank tightened monetary policy in October 2011 for the first time in two years. Inflation fell steeply from July onwards, (7.1% in October), reflecting a fall in international and local food prices.

The Central Bank allowed the Egyptian pound (EGP) to depreciate slightly during 2011 reaching a historical low value of 6.03 EGP/US\$ in December 2011 (down from 5.8 in early 2011). In a bid to calm investors the Central Bank refrained from imposing capital controls on foreign nationals and corporations but continued to defend the managed float. This led to a steady drop in official currency reserves from around USD 36 billion (EUR 27.7 billion) at the end of 2010 to USD 16.4 billion (EUR 13.9 billion) at end of January 2012, representing around five months' imports of goods and services.

The fiscal deficit rose during the 2010-2011 fiscal year as revenue fell and expenditure on subsidies and interest payments rose. The final budget for 2011-2012 sought to reduce the deficit to 8.6% of GDP (rather than the 11% originally proposed), although it is unlikely that this target will be met due to the dampened economic environment. The Egyptian authorities are increasingly looking to financial assistance from other Arab countries and financial institutions – most notably Saudi Arabia, the UAE, Qatar and the Arab Monetary Fund. The government turned down a USD 3 billion stand-by loan from the IMF in June, but a new request for a USD 3.2 billion stand-by facility was made in mid January 2012 that was under discussion at the time of writing.

The Fifth Economic Dialogue between the EU and Egypt took place in July 2011, at which representatives from the interim government and EU exchanged views on the macro-economic situation and their relevant economic policies.

Employment and social policy

The 25 January Revolution and the ensuing economic slowdown exacerbated already high **poverty** levels (in particular in rural Upper Egypt) and major disparities both at geographical level and between rural and urban areas. The continuing negative trend over the past years (the national poverty rate was estimated at 22.8% in 2008, against 16.9% in 2000) contributed to the social unrest in 2011. Official **unemployment** rose to 12% (from 9% in 2010), while youth (in particular higher education graduates) and female unemployment (at 19.3% compared to 5.6% for males) remained a major concern. Most job losses occurred in labour-intensive sectors such as manufacturing, tourism and construction. Labour migration and skills remained high on Egypt's policy agenda. Egypt continued to prioritise skills upgrading for Egyptian workers in view of accepting work in Libya and other neighbouring Arab countries, and support for this was received from several donors.

Egypt is reviewing its National Action Plan on Youth Employment 2010-2015. More than 3 million jobs would need to be created by 2015 to achieve the objective of reducing unemployment for the 15-30 age group to 15%.

Egypt announced as one of its major goals the strengthening of freedom of association, tackling the minimum wage issue, improving vocational education programmes and promoting worker education. Following the announcement on the freedom of Egyptian workers to establish their own labour unions and federations, Egypt was taken off the ILO list of the worst 25 violators of workers' rights in June 2011.

Amendments to Egyptian labour law are still required to fully ensure that workers' **social rights** are in line with international standards. Following the announcement in March 2011 of a draft law allowing strikes and demonstrations to be banned as an exceptional measure under emergency law, a military court sentenced five workers to a one-year prison sentence following a sit-in in June 2011.

As regards **social protection**, in July 2011, the authorities approved a 700 EGP/month minimum wage for public sector employees.

The 25 January revolution put **vocational education and training (VET)** high up on the political and government agenda because of the need to address the growing unemployment and provide the labour market with the skills it needs. However, the institutional setting in the VET sector remained extremely fragmented. The creation of pathways between vocational education and training (VET) and higher education, in particular through the "Clusters Project" (with support from several donors), should help to tackle this situation. In order to boost skills development, work was undertaken to reactivate the Training Fund, established under the 2003 Labour Law. EU financial support on employability continued via the EUR 35M Technical and Vocational Education and Training Programme.

Further reforms are needed, in particular to build social partners' capacity to become independent, representative and well-governed organisations capable of engaging in **social dialogue** and contributing to the formulation of effective labour market policies. The Ministry of Manpower and Migration and the related government agencies should better coordinate, introduce strategic planning methods, and modern information management systems and training. The legal framework for labour administration and labour inspection needs to be enhanced.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is overwhelmingly Egypt's largest trading partner covering almost 32% of Egypt's trade volume. Bilateral trade has more than doubled since the entry into force of the Association Agreement, from €11,5 billion in 2004 to its highest ever level of €23,3 billion in 2011. In 2011, EU imports from Egypt were dominated by energy products (57.9%), followed by chemicals (10.9%) and textiles and clothing (9.5%). EU exports to Egypt consist mainly of machinery (35.0%) and chemicals (16.6%). Egypt maintained the existing export restrictions on rice until October 2011. Moreover, Egypt adopted several new trade restrictive measures. In October 2011, without prior consultation with the EU, an import ban on cotton was adopted. This measure is neither compatible with the EU-Egypt Association Agreement, nor with WTO rules. Egypt also initiated in November 2011 a safeguard procedure with regard to cotton and mixed yarn. The EU has registered as an interested party to this investigation. As of 31 December 2011, Egypt implements a provisional safeguards duty on cotton and mixed yarn. New protectionist measures also affect ready-made garments and leather where significant non-tariff barriers were announced in November 2011.

Negotiations on the liberalisation of **services** and **establishment** did not progress.

In principle, Egypt agrees to apply **customs** valuation rules included in Article VII of GATT and World Customs Organisation commentaries, although some difficulties on maintenance and guarantee costs in the customs value of cars have been reported. The requirement for 'source' certificates of origin when the place of manufacture is different to the place of dispatch was suspended after exporters and importers raised concerns. Economic operators reported increased bureaucracy in customs procedures, making them longer with a tendency towards less predictable application of rules. Egypt has been failing to modernise and simplify its customs legislation and procedures. The new customs law, which was expected to be adopted during the reporting period, has yet to be approved by the Parliament.

On the **free movement of goods and technical regulations**, Egypt continued its preparations for the negotiation of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA).

On accreditation, the Egyptian Accreditation Council (EGAC) signed a co-operation contract with the European co-operation for Accreditation (EA). It is a full member of the International Accreditation Forum (IAF) and the International Laboratory Accreditation Cooperation (ILAC). It will endorse peer assessments to get the EA Multilateral Recognition Arrangements (MLAs). In November 2011, EGAC became an Associate member in the European Co-operation for Accreditation.

Market surveillance remains a key concern. Egypt is encouraged to finalise the alignment of its legislation, the adoption of related EU standards and its affiliation to the European Committee for Electrotechnical Standardisation (CENELEC).

Regarding **sanitary and phytosanitary (SPS)** issues, the draft unified food law and the establishment of a single food safety authority remained pending. The EU and Egypt addressed several trade irritants and as a result, Egyptian potato imports into the EU can follow simplified procedures in the forthcoming season. Following a severe outbreak of a food-borne illness in the EU (linked to the Escherichia coli bacteria), in July 2011, the European Commission temporarily banned imports of certain seeds and beans from Egypt. In August 2011, the Food and Veterinary Office (FVO) of the European Commission carried out a mission to assess the production of seeds that may be consumed as sprouts. Subsequently, Egypt committed to address the FVO observations.

On construction permits, payment of taxes and contract enforcement remained critical areas affecting Egypt's **business climate**. Payment arrears by public bodies affected enterprises. Compared to the previous year, Egypt moved from the 108th to the 110th place in the ease of doing business ranking in the World Bank's 'Doing Business 2012' annual report.

There was no progress in the field of **establishment and company law**. The security threats, the legal and administrative uncertainty created by the revocation of past State contracts, and the difficulties in obtaining licenses and payments from the public authorities, constitute worrying signals. The result was a fall by almost 70% in foreign direct investment (FDI) inflows.

The regulatory reform and administrative simplification e-registry was launched at the beginning of July 2011, providing free online access to more than 30.000 business-related regulations (<http://eregistry.errada.gov.eg/>).

Following the closure, on 30 January 2011, of the stock exchange after losing 10% in the market and 12 billion USD in 2 days, the Egyptian Financial Supervisory Authority (EFSA) issued new conditions for trade resumption to provide reassurance to the markets. Trading resumed on 23 March 2011. EFSA issued rules on good governance (extending ownership disclosure requirements in listed companies from end of May 2011). The Central Bank of Egypt (CBE) elaborated and enacted **good governance** rules that include measures for restructuring CBE's board in order to ensuring more independence and to eliminate conflicts of interest.

No significant developments can be reported on **services and financial services**.

Other key areas

The State budget and the economic recovery programme of June 2011 proposed **tax** reforms to help the private sector. New tax measures include eliminating customs exemptions, expected to generate EGP 0.5-1 billion in revenue. Income tax will become more progressive by a rise in the exemption threshold on wage income and by a new 25% tax rate for the top income bracket (over EGP 10 m). Egypt suspended implementation of the new tax on commercial and residential property brought in by the previous government in 2010.

In June 2011, the Egyptian **Competition** Authority (ECA) and the National Telecom Regulatory Authority agreed to coordinate procedures and methods. By June 2011, ECA had received ten cases and initiated one sector study. A study on the milk market identifying violations of competition law was published in March 2011. Since December 2011, ECA has the power to settle final cases or to refer them to the public prosecution without prior authorization from the competent minister. Three cases were referred for prosecution. The EU supported ECA through a twinning project. The OECD undertook a performance assessment of ECA, and noted positive developments.

There were no significant developments on **Intellectual Property Rights, public procurement and accounting**.

A new law on national **statistics** has been drafted by the Central Agency for Public Mobilization and Statistics with EU assistance. Following the European Commission's decision no. 30 from 19 January 2011, for a transitional period, **auditors and audit companies** from Egypt will be allowed to audit EU companies without being subject to approval or registration in the EU. Egypt developed plans for a **public finance management** reform strategy (with support from the EU and other donors), in particular on internal audit. However, no concrete measures were adopted in 2011.

On **enterprise policy**, the General Authority for Investment and Free Zones (GAFI) announced new measures to boost investment, including a reduction in the time needed for foreign companies to register branches (from 4-6 months to 3 days), and cancellation of initial approval from the Industrial Development Authority (IDA) for industrial projects. GAFI benefits from an EU twinning project. Egypt also announced a plan to attract foreign investment to prospect for gold and other minerals. The Prime Minister established in May a permanent committee for solving investment-related problems. The privatization process is officially suspended and three privatisation contracts have been cancelled by administrative rulings. Others are pending in the courts.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Egypt hosts a large refugee community. It generally respects the principle of *non-refoulement*, but it has not yet established a proper **asylum** system or legislation. This implies that in Egypt, the identification, assistance and protection of asylum seekers and refugees remains the sole responsibility of the UNHCR. Some asylum seekers and refugees are denied the possibility of access to UNHCR, which may lead to their detention or expulsion as irregular migrants. Egypt maintains significant reservations on the 1951 Geneva Convention on the Status of Refugees on the basis of which, asylum seekers and refugees continue to be denied access to free state education and health care.

In 2011, the number of asylum seekers and refugees in Egypt increased, due to the massive arrival of persons escaping the revolution in Libya. Some of them (especially Libyan citizens or nationals of countries to which return was possible) subsequently left Egypt, but others remained, sometimes stranded with very limited assistance near the Salloum border crossing point. At the end of 2011, over 44,000 refugees and asylum-seekers were registered with the UNHCR.

Particularly worrying in 2011 was the situation of asylum seekers and irregular migrants in the Sinai region, notably those coming from the Horn of Africa. The refusal of Egypt to let UNHCR operate in that region made it impossible to provide international protection to those in need. The methods chosen by Egypt to control the border with Israel led to the killing (as of August 2011) of some 11 migrants, who had unlawfully approached that border. Furthermore, many asylum seekers and migrants trying to cross the region with the help of local smugglers were kidnapped by the latter and subject to inhuman treatment, torture and organ stealing. The Egyptian authorities have been failing to address this problem adequately, despite the urgency. Efforts should be made to dismantle the criminal organisations involved, free those migrants which are still under their control and provide to them the necessary humanitarian assistance. On 15 March 2012, the European Parliament adopted a Resolution strongly condemning human trafficking in Sinai and asking the Egyptian authorities to take an urgent action.

In 2011, the EU signed with UNHCR a EUR 3.6 Million Regional Protection Programme encompassing Egypt, Libya and Tunisia. Its goal in Egypt is to support UNHCR capacity to better identify persons in need of international protection, to offer social services and sustainable protection solutions to them, and to enhance their capacity for self-reliance.

On **border management**, Egypt eased restrictions for Palestinians residing in Gaza, granting - as of May 2011 - visa-free entry to certain categories (such as children, women, men over 40, students and Palestinians seeking medical treatment in Egypt). Egypt continued the construction of an underground metal barrier along the border with Gaza, in order to reduce tunnel smuggling. In the course of 2011, less than 1,000 irregular migrants from Egypt were registered in Italy.

Egypt is part of the first region where the Visa Information System (VIS) became operational on 11 October. The VIS is a centralised database which allows for the recording and exchanging of information about short stay visas between Member States of the Schengen area. The VIS aims at reinforcing the effectiveness and security of visa issuing procedures and border controls, as well as facilitating the identification of visa holders via the use of biometric indicators.

Following exploratory talks in June 2011, the EU offered Egypt the prospect of opening of a comprehensive **Dialogue on Mobility, Migration and Security**, leading towards the conclusion of a Mobility Partnership. In September 2011 the Egyptian authorities declined the offer.

On **judicial cooperation** in criminal and civil matters – following the EU decision of March 2011 to impose the freezing of funds and economic resources owned or controlled by persons identified as responsible for the misappropriation of Egyptian funds – cooperation between the EU and Egypt was supported via a EUR 2.5 Million project carried out with the UN Office on Drugs and Crime. The project, launched in July 2011, focuses on the fight against **corruption, money laundering** and asset recovery. Egypt is also participating in the regional “Euromed Police III” project, which started in September 2011.

Egypt has not taken any steps to accede to the major conventions on judicial cooperation in criminal law in the framework of the Council of Europe, or in relation

to civil law under the Hague system. While Egypt is party to some instruments under the Hague Conference on Private International Law, there was no progress on accession to important international conventions on family law (such as the 1980 Hague Convention on the Civil Aspects of International Child Abduction and the 1996 Convention on Parental Responsibility and the Protection of Children).

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

Implementation of the ambitious **transport** reform programme (EUR 80 million of EU budget support) suffered further delays, notably in the road and rail sector. Some major rail infrastructure investments (especially signalling on the Cairo-Alexandria and Minya-Assuit railways) continued to be implemented. In June 2011, Egypt preliminarily agreed to resume negotiations with the EU on the horizontal aviation agreement. Restructuring of the inland waterway sector resumed in March 2011, including the creation of a telecommunications network and management system linking barges with the river transport authority. In the maritime sector, Egyptian efforts to boost its administrative capacity and to improve flag state implementation (also through an EU twinning project) have led to tangible results: the Egyptian flag moved from the black list up to the grey list of the Paris Memorandum of Understanding on Port State Control.

In February 2011, the Supreme **Energy** Council decided to update the Egyptian energy strategy for 2030 in the light of the new situation in the country. On this basis, a white paper will be drafted with EU assistance. The EU and Egypt launched a project to help strengthen the electricity regulator. Egypt further developed its electricity networks. It remained committed to enhancing the use of renewable energy and energy efficiency. The ENPI - Neighbourhood Investment Facility co-financed several projects in this area including the development of a renewable energy/energy efficiency master plan and the development of wind and solar power plants. The EU and Egypt continued to cooperate on strengthening the nuclear industry regulator.

Regarding **climate change**, two new Clean Development Mechanism projects were registered at UN level, bringing the number of registered projects to nine. Egypt is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the UN Framework Convention on Climate Change Conference of the Parties 17. Egypt is also encouraged fully to implement the Cancun and Durban agreements and in particular devise a low carbon development strategy including updated information on targets or actions to implement.

On the **environment**, the government adjusted its targets for the water sector reform in the light of the political situation. The new targets will be supported via a EU sector policy support (EUR 120 million project for the second phase of the water sector reform programme). They are based on the National Water Resource Plan 2005-2017 and the water and wastewater sector development policy. The EU has contributed improving water and sanitation programme in 4 governorates in the Nile Delta (EUR 23 million) through a Neighbourhood Investment Facility project that targets the construction and rehabilitation of water and waste water infrastructure. Egypt restarted talks with its Southern neighbours, including Ethiopia and Sudan, on sharing the water resources of the Nile. There were no significant developments as regards

ratifying the amendments to the Land-Based Sources Protocol and the Emergency Protocol of the Barcelona Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean. In the context of multilateral environmental processes, Egypt frequently took positions contrary to those of the EU.

In the field of **civil protection**, Egypt intensified the cooperation with the countries from the region and the exchange of best practices with the EU in the field of disaster prevention, preparedness and response through its participation in the EU Programme for Prevention of, Preparedness for, and Response to natural and man-made disasters (PPRD South).

As regards the **information society** sector, progress in regulatory reform has halted. Vodafone Egypt and other network operators were instructed on 28 January 2011 to suspend services in selected areas. Mobile communications were suspended for two days and internet for around a week. Most network operators complied with government instructions, but some smaller internet service providers kept the internet connection up and running. While network operators are operating under local law, it is clear that any decision to deny access to the internet can represent a violation of freedom of expression.

On **research and innovation**, Egypt continued to implement its reform strategy (2007-12). The 2nd phase of the Research Development and Innovation Programme (RDI-II) was officially launched in June 2011 with an EU contribution of EUR 20 million. Egypt's participation in the European framework programme for research (FP7) increased in 2011. By mid-October 2011, Egypt had signed 66 grant agreements, involving 85 participants from Egypt and benefiting from an EU financial contribution of around EUR 10 million. The thematic areas which attract the main interest are Environment (including Climate Change), Food, Agriculture, Fisheries and Biotechnologies, Marie-Curie Actions, Health and Information and Communication Technologies.

7. PEOPLE TO PEOPLE CONTACTS, EDUCATION AND HEALTH

Egypt's **education** system is in need of structural reforms, including increased flexibility and efficiency in governance and institutional management. The last set of planned education sector reforms to improve the quality of educational services and learning outcomes, and the effective management of public spending in education) - supported by the EU through a EUR 140 million sector budget support programme - were postponed by one year. Progress in other areas slowed, including the review of compulsory education in Egypt and the reform of secondary education (including the access to university) slowed down.

Cooperation in the context of EU higher education programmes continued. In 2011, three new partnerships involving twelve Egyptian higher education institutions were selected under the **Erasmus Mundus** programme. Mobility schemes for 240 students and staff from Egypt are foreseen (including 166 mobility schemes which were financed out of the additional EU funding allocated after the European Neighbourhood Policy review). In relation to university cooperation, four additional **Tempus IV** projects involving Egypt were selected, in line with the results of the previous year. They concern the development of joint degrees in mechatronics, clean

energy, the creation of e-laboratories or the development of professional guidance in universities. In the four calls for proposals under Tempus, Egyptian applications represented almost 10 % of all applications from all countries. The Tempus programme helped create links between higher education institutions and the world of work, and in promoting the principles of the Bologna Process. Twenty-three Egyptian higher education institutions and 20 individual researchers benefited from **Marie Curie Actions**, aimed at fostering international research collaboration. However, this was only a fraction of the national needs.

On **culture**, the 25 January Revolution was a trigger for Egypt to start discussing reform of the **audiovisual** sector. Support has been provided to improve capacities of young professionals of the sector to access funding and international markets through the Euromed Audiovisual III Programme.

The number of young Egyptians and Egyptian youth workers benefitting from exchange opportunities offered by the **Youth** in Action programme increased from 108 in 2010 to 140 in 2011. 16 new projects were approved in the context of the Euromed Youth IV Programme in 2011 in Egypt.

Egypt pursued **health** sector reform, with EU assistance (EUR 198 million under two programmes), in particular by further rolling out its “Family health model” for primary health care. Institutional changes included the merger of two ministries into a ministry of health and population. Egypt established a new committee that should finalise a draft health insurance law. The EU and Egypt continued health sector dialogue, particularly in Cairo. Egypt participated in the EU supported ‘Episouth Plus’ project aimed at increasing health security in the Mediterranean region and South East Europe.