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Implementation of the European Neighbourhood Policy in 2008

Progress Report Egypt

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1. BACKGROUND AND OVERALL ASSESSMENT

Egypt and the European Community first established contractual relations in 1976 by signing a Cooperation Agreement. The Euro-Mediterranean Partnership, inaugurated at the 1995 Barcelona conference, established a policy with ambitious and long-term objectives. This partnership was reinforced in 2008 by the establishment of the Union for the Mediterranean. The Association Agreement with Egypt, which entered into force in June 2004, sets out in more detail the specific areas that can be developed bilaterally. On this basis, the EU-Egypt ENP Action Plan was adopted in March 2007 for a period of three to five years. A first report was adopted in April 2008.

Institutional cooperation enabled both sides to progress with the implementation of the Association Agreement and the ENP Action Plan. Implementation of the Action Plan was launched in June 2007 with the first meetings of subcommittees, and by the end of October 2008 all eight subcommittees and one working group had met at least once. No meeting on the Economic Dialogue took place in 2008. The first EU-Egypt Association Committee was held in Cairo on 16 December 2008.

This document reports on progress made on the implementation of the EU-Egypt ENP Action Plan between 1 January 2008 and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Egypt.

Egypt has so far shown commitment to its ENP Action Plan and is an active partner in the different subcommittee meetings where implementation of the Association Agreement and the Action Plan priorities are discussed. While the process of implementation has clearly started in earnest, it is important to note that Egypt and the EU find themselves only at the beginning of this comprehensive bilateral engagement and that much work lies ahead.

At the 4th meeting of the EU-Egypt Association Council, in April 2008, Egypt submitted a paper to the EU outlining a non-exhaustive set of proposals to enhance relations with the EU. In that paper Egypt underlines its longstanding partnership with the EU and expresses the desire that its proposals should contribute positively to deepening relations with the EU through intensifying political dialogue, reinforcing trade and economic relations, and further strengthening relations in various sectors, such as agriculture, energy, science and technological cooperation, higher education, and culture.

Overall progress on the implementation of the Action Plan in 2008 can be summarised as limited but encouraging, with a stronger commitment to social, economic and sector reforms, though with a lesser commitment to political reform.

Good progress was made on women's and children's rights, particularly the introduction of measures against female genital mutilation and the adoption of a new Child Law to strengthen the rights of the child in line with international standards. Achievements were further noted in promoting the role of women in social and economic life. Egypt ratified the Convention of Rights of Persons with Disabilities as one of the first countries in the world.

Limited progress was observed on implementing measures to promote the right of assembly and association, and to assert freedom of expression and independence of the media. No significant progress can be noted as regards the independence of the judiciary, although some

progress was made to modernise the administration of justice. Progress in guaranteeing freedom of religion, improving prison conditions and tackling torture and ill-treatment was limited.

Cooperation on foreign and security policy, combating terrorism and the non-proliferation of weapons of mass destruction continued in 2008.

Progress was achieved in the area of economic reform, particularly on fiscal and monetary policy and on general economic liberalisation, which was complemented by the establishment of fast-track economic courts.

In the trade sector, good progress was made with the conclusion of negotiations on agricultural liberalisation and further improvement of the business climate for SMEs, while progress with market and regulatory reform was more limited.

In the area of sector reform, good progress was made in promoting access to primary education, access to primary healthcare and the introduction of health insurance for the entire population. Progress also continues in the areas of research and innovation, information society and audiovisual cooperation, while limited progress was made on improving the environment. Moreover, Egypt and the EU signed a Memorandum of Understanding on a strategic partnership on energy in December. Progress in the fight against corruption was registered.

Finally, Egypt assumed the co-Presidency of the Union for the Mediterranean (UfM). It also plays an active role in the Africa-EU political dialogue taking place in the framework of the Joint Africa-EU partnership, in particular by assuming the role of lead country in the implementation of the partnership on Democratic Governance and Human Rights and in the partnership on Migration, Mobility and Employment.

2. POLITICAL DIALOGUE AND REFORM

Democracy and rule of law

Objectives in this area include: enhancing the effectiveness of institutions dealing with strengthening democracy and the rule of law, decentralisation and reform of local administration, consolidating the independent and effective administration of justice and improving prison conditions.

In May 2008 the Egyptian Parliament extended the **state of emergency**, in place since 1981, by two more years until 2010 or until new anti-terror legislation is passed. In line with the EU Presidency statement of May 2008, this further extension of the state of emergency is regretted. A draft counter-terrorism law is under preparation. Under 2007 constitutional amendments, the state of emergency should have been lifted before the end of the legislative session in July 2008 with the introduction of a new institutional framework for combating terrorism.

Local municipal **elections** were held in April 2008 in accordance with the 2007 constitutional amendments and on the basis of local administration law. The elections resulted in an overwhelming victory for the ruling National Democratic Party (NDP) which won around 95% of the 53.000 seats. Voter turnout remained low with 23% of registered voters, according to official figures, and between 1 and 5% according to local NGOs. Despite some delays, the

holding of local elections demonstrates a commitment on the part of the government to the electoral process. On the other hand, there are a number of concerns over shortcomings in this area. Thousands of candidates from the legal opposition parties and independent candidates, including from the Muslim Brotherhood (MB), were either prevented from registering their candidacies, or had their candidacies rejected by the electoral committees. The results of the local elections have a direct impact on the 2011 presidential elections since the 2007 constitutional amendments require any presidential candidate, standing as an independent, to be sponsored by at least 140 local representatives from 14 of the country's 29 governorates.

No significant developments can be reported on extending the mandate of the Supreme Electoral Commission to supervise local municipal ballots. Ambiguities remain over its administrative structure and in particular its independence from the legislature, given that a majority of its members (7 out of 11) are selected by one of the two houses of parliament.

A new draft election law is under preparation, but has not yet been presented to Parliament. Of specific relevance will be the eligibility of candidates of political parties and independent candidates to participate in elections. As stated in the first Progress Report, the new electoral law may adopt a partial lists system. The draft legislation is expected to increase the participation of women in both houses of Parliament. Despite a specific commitment in the Action Plan, no cooperation was developed in the field of elections. The EU made an offer for technical assistance to improve the electoral framework including voter registration, which was declined.

The independence of the **judiciary** remains subject to the ongoing state of emergency. Special courts, such as the state of emergency security courts and military courts, continue to exercise jurisdiction over security offences. Although announced by the Government in 2007, no amendments to the judicial authority law to enhance judicial independence have yet been presented to Parliament. The degree of influence retained by the Executive, principally the Minister of Justice, in the appointment of the Chairman of the Supreme Council of the Judiciary and of magistrates, is not conducive to the independence of the profession. With regard to the reform of the **administration of justice**, Egypt continues to invest in enhancing the efficiency and professionalism of the judiciary and public prosecutors by providing legal aid services, improving access to information and capacity building and training through the National Centre for Judicial Studies. Modernisation of the court administration is being advanced by the development of an e-justice programme to ensure the full automation of court records and procedures. In addition, the Court Construction Fund provides funding for the construction of court infrastructure in rural areas as well as the expansion of existing judicial support services. In this regard, the establishment and construction of a new Judicial Academy is envisaged.

In October 2008, a new law establishing the system of Economic Courts entered into force. The new system aims to improve the predictability and rapidity of justice in areas such as intellectual property rights, anti-monopolies, competition, capital markets and banking. The law also provides for a dispute resolution panel based upon pre-court conciliation. Reforms also continue in the areas of criminal and juvenile justice and family law, where a guide on family litigation has been produced. Following the establishment of family courts in 2008, a draft law on regulating personal status and litigation is expected to be presented in Parliament during the current legislative session.

The national Transparency and Integrity Committee on Corruption continued to work on a national strategy against **corruption** and relevant mechanisms for its implementation with and

between public authorities both at central and local level. In this context, the Ministry of State for Administrative Development signed in April 2008 a Memorandum of Understanding on transparency and integrity measures with the Central Audit Authority, while the Committee cooperated on a national corruption perception index. The Committee also established a mechanism for the receipt and follow-up of public complaints. The Ministry of Justice is the mandated body for implementation of the United Nations Convention against Corruption in cooperation with the Public Prosecutor. Egypt is preparing to accede to the 2003 African Union Treaty on Preventing and Combating Corruption and is participating in the drafting of an Arab League convention on corruption and asset recovery.

With regard to **local administration reform**, work continues on developing a concept for decentralisation as announced by the President during the opening session of the People's Assembly in November 2008. To this end, discussions took place with some EU Member States (France and Italy) on approaches to empower local administrations to better deliver public services, and a draft law is being prepared. Regarding reform of the public administration, the second report of July 2008 by the national Transparency and Integrity Committee on Corruption underscored the need to issue a new public service law to implement the principles of accountability and effective management of funds within the public service as well as to define mechanisms to manage its human resources in a transparent manner.

Human rights and fundamental freedoms

Objectives include broad cooperation to strengthen the culture of human rights at both the social and institutional levels, the rights of women and children, freedom of association and of expression, the fight against discrimination, intolerance, racism and xenophobia, fundamental social rights and core labour standards.

Egypt's national **human rights** strategy, drafted by the National Council for Human Rights (NCHR), is to be adopted by line Ministries in the 2009 national budget through the earmarking of specific budget lines required to carry out the strategy. It aims *inter alia* at spreading a human rights culture through education, the media and institutional capacity building.

The NCHR continued to raise its visibility, reaching out to governorates. The use of mobile units ensured that the Human Rights Ombudsman was able to reach out to remote areas. In its 4th annual report in March 2008 on the situation of human rights in Egypt in 2007, the NCHR condemns and expresses deep concern *inter alia* over the use of torture. It also raises serious concerns about the Emergency Law and repeats its call that the new anti-terror legislation should not be a mere extension of the current Emergency Law. As noted in the first progress report, this law remains a major obstacle to the full enjoyment of human rights, allowing for arrests that do not have to be substantiated or challenged in law, detention without charge and trial, and restrictions on freedom of assembly. Court rulings under the Emergency Law often circumvent constitutional and international safeguards. Several thousands are estimated to be imprisoned under Emergency Law provisions.

The NCHR reported receiving 6 677 individual complaints during the year, of which 42% concerned economic and social rights. The NCHR officially forwarded the complaints to relevant ministries and was able for the first time to publish data on answers received from these ministries. Responses by the authorities up to the end of February 2008 were forthcoming on around 53% of total referrals.

Egypt is party to a number of international and regional human rights instruments. Egypt ratified the Convention of Rights of Persons with Disabilities in April 2008 as one of the first countries in the world. Egypt announced in its voluntary pledges to the UN Human Rights Council to ratify the Convention on Enforced Disappearances, but has not yet done so. Egypt has not ratified optional protocols under the International Covenant on Civil and Political Rights and the Convention Against Torture and it maintains reservations to the Convention on the Elimination of all Forms of Racial Discrimination and to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), see below.

By the end of the reporting period, Egypt had not yet extended invitations to five UN special rapporteurs and had seven overdue reports to Treaty Bodies. After the reporting period however, in April 2009, Egypt invited the UN Special Rapporteur on the Protection and Promotion of Human Rights and Fundamental Freedoms while Countering Terrorism. This would be the first ever visit by a UN Special Rapporteur.

In December 2008, Egypt voted against the 2008 UNGA resolution 63/168 calling for a worldwide moratorium on the use of the **death penalty**. The number of crimes punishable by death in Egypt is estimated at around 90.

As in the last reporting period, the authorities showed a certain determination to tackle the reportedly widespread practice of **torture and ill treatment**, mainly in police stations. In November 2008 prison sentences were handed down by the courts to police officers for torturing a detainee. However, the definition of torture as a criminal offence does not yet fully comply with the UN Convention against Torture. The training of police officers to counter the culture of impunity remains a priority.

Prison conditions and the rights of prisoners and detainees remained a key concern in 2008. According to the Egyptian Government the improvement of conditions is an ongoing process and measures taken include the introduction of conjugal and face-to-face visits for certain types of prisoners, improved medical treatment as well as education and training. Egypt has not yet adopted 'legislative amendments in the area of pre-trial detention', as announced in its voluntary pledges to the UN Human Rights Council. The Egyptian authorities have shown some openness to prison inspections by local independent bodies as well as the NCHR, though not as regards access by international human rights observers to prisons and detention centres. Most prisons suffer from overcrowding and poor sanitation, and conditions in police stations and temporary detention centres are poor.

No major progress can be reported in guaranteeing **freedom of expression**. While freedom of the media and press increased, especially outspoken criticism in the independent and opposition newspapers, 2008 continued to witness the harassment of journalists and internet bloggers, kept in arbitrary detention or charged with harsh prison sentences and heavy fines, although in some cases prison sentences were reduced and charges dropped. Although prison sentences for several publishing offences were replaced by fines in the 2006 Press Law, severe restrictions on media reporting and arrests for press offences remain. In July 2008, the Egyptian authorities prepared a draft Law on the regulation of audiovisual media and the Internet. No information on this draft Law was officially disclosed.

Freedom of association remains a problematic area. The 2002 law on non-governmental organisations and foundations – known as the NGO law - continues to impose certain legal, administrative and security restrictions on the activities of civil society organization in terms of licensing, funding and organizational autonomy. The implementation of the law has

resulted in a number of NGOs being prevented from operation via administrative obstacles and harassment, such as registration requirements (licensing), access to foreign funding and severe individual penalties for non-compliance with the law. A revision of the Law is under discussion, but no draft was officially presented for consultation by the government during the reporting period.

The implementation of measures that promote the right of **assembly and association** in accordance with the International Covenant on Civil and Political Rights also remains a problematic issue. Several violent confrontations between security forces and peaceful demonstrators took place, most notably during demonstrations in April 2008 by striking workers and sympathisers at the state-owned Mahalla textile plant protesting against pay and service conditions.

As regards **freedom of religion**, limited progress was made with the adoption of two decrees regarding the renovation of churches. In addition, two important court decisions were taken in early 2008. The first allowed Baha'is to have identification documents with no indication of their religious affiliation (see last report). This decision was upheld by a ruling of the Supreme Administrative Court in March 2009, outside the reporting period. The second ruling allowed Christians who converted to Islam and then reconverted to Christianity to have their original religion mentioned in their ID documents. Other court cases left the aspect of religious conversion legally unclear.

A draft unified Code on places of worship is under preparation, with the aim of setting criteria for the construction, extension, renovation and repair of places of worship. The NCHR in its 2008 report provided a number of recommendations to the Government on non-discrimination concerning religious minorities.

Violations of the **rights of migrants, refugees and asylum seekers** remain a matter of concern. Twenty-four illegal migrants of sub-Saharan origin were shot by Egyptian security forces at the border with Israel in 2008. In June 2008, the Egyptian authorities forcibly returned a group of 1400 Eritrean migrants to their country, despite the risk of facing ill-treatment if returned. UNHCR Cairo was initially denied access to the migrants in order to establish their status as asylum-seekers or to interview those with refugee claims. UNHCR was subsequently granted limited access to the Eritreans and the Egyptian Foreign Minister reaffirmed Egypt's commitment to uphold its international obligations relating to the protection of refugees. Another group of Eritreans expelled from Israel were returned to Eritrea by the Egyptian authorities at the end of 2008. None of these had recourse to the services of the UNHCR in Cairo. Egypt continues to maintain reservations in respect of several articles of the 1951 Convention relating to the Status of Refugees, and despite being party to a number of international conventions obliging to provide protection to refugees, the government has passed on the execution of this obligation to the UNHCR office.

Some progress can be reported in the promotion of **women's rights**. In January 2008 Egypt withdrew one reservation on CEDAW regarding the right of women to pass on their nationality to their children. Egypt still maintains reservations to CEDAW, considering for example that the equality of women in matters of marriage and divorce is conditional upon compatibility with Islamic law. The Government continued its campaign to combat female genital mutilation. According to UNICEF, 77% of girls aged 15-17 years are still subject to such mutilation.

As regards violence against women, including domestic violence and sexual harassment, there were a number of well-publicised trials and convictions of rapists and sexual harassers in 2008. The first ever sexual harassment case, in June 2008, led to a three-year term of imprisonment and a fine of EGP 5,000– approximately EUR 700. The Penal Code lays down particularly severe penalties when the victim is a woman, in cases such as abduction, rape, abortion resulting from abuse and other acts that violate a woman’s dignity. Protective mechanisms to shelter victims of violence exist, but are inadequate and not known to the general public.

Good progress was made on consolidating the rights of the **Child**. A new Child Law was adopted in June 2008 amending the earlier Law. The new legislation makes the trial of minors as adults illegal, raises the age of criminal responsibility, allows children born out of wedlock to obtain birth certificates, restricts corporal punishment, raises the age of marriage to 18 years of age, forbids the detention of minors in adult detention centres, modifies the status of street children from criminals to victims and reinforces the standing ban on female genital mutilation. The National Council for Childhood and Motherhood (NCCM) has played an important role in supporting the law, in close consultation and with the participation of civil society organisations. The NCCM is also actively contributing to the preparation of implementing regulations to effectively enforce the Child Law.

Furthermore, Egypt has made child labour a criminal offence through amendments to the Unified Labour Law and the adoption of implementing ministerial decrees. Three cooperation protocols were signed with ministries with the aim of withdrawing working children from hazardous occupations and transferring them to factories implementing health and safety at work measures.

Limited progress was made as regards **fundamental social rights and core labour standards**, including guaranteeing the independence of trade unions. The effective implementation of ILO conventions the Right to Organise and Collective Bargaining Convention, the Freedom of Association and Protection of the Right to Organise Convention, and the Collective Bargaining Convention is not ensured. The current legislation on labour unions (the Unified Labour Law of 2002) governs trade union rights and excludes the establishment of new trade unions other than the 23 syndicates federated in the general Union for Workers’ Syndicates, which is supervised by the Ministry of Manpower. There were violent confrontations following the call for a public strike in April 2008. The ILO Committee of experts on the Application of Standards reiterated in June 2008 its remarks on some provisions regarding trade union rights and the right to strike. Declining economic growth and frustration at the limitations of the state-run unions have prompted a number of worker groups to form independent unions better able to articulate their demands for improved pay and working conditions.

Cooperation on foreign and security policy

Egypt is an important partner of the EU on **CFSP** matters. Political dialogue was further intensified with the first meeting of the subcommittee on political matters in June 2008 and on the occasion of the first meeting of the Association Committee in December 2008. Egypt remained actively engaged in contributing to a comprehensive solution to the Middle East Peace Process (MEPP), in particular through its mediation efforts between the Palestinian factions, which gained momentum in the second half of 2008, in brokering a ‘tadiya’ (calm) between Hamas and Israel, and in mediating terms for a ceasefire in the Gaza-Israel conflict at the end of 2008. Egypt and the EU continued to agree on the need for full implementation of

the Agreement on Movement and Access concluded between Israel and the Palestinian Authority in November 2005. During the reporting period, the EU's monitoring mission to Rafah was still on standby. However, also in view of the Gaza crisis at the end of the year, Egypt and the EU agreed on the desirability of redeployment as soon as conditions allow.

Egypt is also actively engaged in African affairs. It contributes to the peace-keeping forces in Darfur (including with a military field hospital), alongside UN/AU forces. Egypt assumed the co-Presidency in November 2008 of the Union for the Mediterranean (UfM), significantly enhancing its role in this newly-constituted regional grouping. Egypt was instrumental in bringing about the inclusion of the Arab League in the UfM.

Egypt wishes to further deepen dialogue with the EU on **counter-terrorism**. Globally, Egypt seeks EU and international backing for its initiative to combat the use of the Internet for terrorist purposes (such as recruitment, incitement, training and production of weapons and explosives), arguing that greater effectiveness could be achieved on controlling and monitoring internet sites with international cooperation, without sacrificing freedom of expression. Regarding the long-promised new anti-terror law needed to replace the provisions of the Emergency Law, the Government asserts that it is examining EU legislation in this field, seeking to strike the right balance between security and civil rights.

The Rome Statute of the **International Criminal Court** was signed by Egypt in 2000, but it has not been ratified.

Egypt pursues a regional policy of disarmament and non-proliferation of **weapons of mass destruction**, in particular, a Middle East free of nuclear weapons. Egypt advocates the peaceful use of nuclear energy, under NPT conditions. Following its announcement to re-launch its nuclear energy programme, the European Commission offered technical assistance and support to the Egyptian authorities to ensure full compliance with international nuclear safety and security standards.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning of the market economy

Despite the global financial and economic slowdown, the Egyptian economy has so far shown robust economic growth. Growth accelerated during the 2008 fiscal year (July 2007 until June 2008) to 7.2%, fuelled by investment and exports. Strong expansion of investment and exports was the fruit of earlier reforms that received international recognition through the improving international rankings of Egypt in the business environment. Economic growth in the second quarter of the 2009 fiscal year (October-December 2008) slowed down to 4.1% year-on-year. In the light of the global slowdown this growth is still fairly high. The subsequent quarter will however show a lower growth, following the contraction of production by 4.5% year-on-year and of the nominal exports by 16% year-on-year in December 2008.

As a consequence of the global crisis, foreign investors have been withdrawing from the Egyptian stock exchange, and foreign direct investments have been falling. Moreover, foreign demand for Egyptian goods and receipts from tourism and from the Suez Canal have been falling sharply. There are other risks for the Egyptian economy that are lingering already for a longer period, such as the high dependence on the imports of food – mainly wheat – for its steadily growing population and the high indebtedness of the government.

Soaring food and energy prices pushed up consumer price inflation to more than 24% year-on-year in September 2008. Due to inefficient monopolies in the food supply chain in Egypt, the rapid global fall of food prices has not yet been transmitted into the Egyptian consumer price index; in February 2009 CPI inflation was still above 14%. These higher prices diminish the purchasing power of the population; low income households are affected most. The Central Bank of Egypt tightened monetary policy eight times during the year, but in view of the global crisis it has started to ease its policy. Due to the global financial crisis, global food prices and therefore the prices for imported food will fall further. However, the food monopolies and the 30% increase in government wages in 2008 will keep domestic consumer prices high in the short term.

Egypt is still making progress in improving its fiscal stance. Despite soaring global commodity prices, the general government deficit widened only slightly to 7.8% of GDP in the 2008 fiscal year. Moreover, the general government debt is on a steeply declining path. In addition, the government aimed to keep itself to the commitment of a budgetary government deficit of 6.8% of GDP in the 2008 fiscal year and is on track for the further fiscal consolidation, implying a gradual reduction of the deficit to 3% of GDP by the 2011 fiscal year. In response to the economic slowdown, fiscal authorities have however initiated an economic stimulus package of LE 15 billion in the 2009 fiscal year, representing 1.5% of GDP. On the positive side the government started the replacement of energy and food subsidies by a targeted income support. This period of lower inflation is perfectly suitable for intensifying the reforms in the subsidy system. The phasing out of subsidies is needed to strengthen government debt sustainability and reduce the vulnerability to shocks. Improving the structure of public spending, by reducing the share of the government wage bill, interest and subsidies in total expenditure, remains a priority.

Financial sector reform, a key aspect of the reform agenda, was partly stalled in 2008. The drying up of liquidity in the banking sector of advanced economies hampered the process of privatisation of a major Egyptian bank. Broadening and deepening of the financial sector is needed for the building of an efficient and well-functioning market sector, where households and companies can find easily access to funds from intermediaries such as commercial banks, and for giving more room for manoeuvre for capital instead of current spending by the government.

Employment and social policy

Egypt has declared **poverty reduction** to be one of its main objectives and intends to reduce poverty to 6% by 2022 from the current level of around 40% of the population. The international food crisis and the rise in oil prices affect the Government's efforts to combat poverty efficiently, despite specific measures taken in April to lift customs duties for a number of imported goods. The Supreme National Council for Wages, which convened for the first time in February 2008, is studying fixing a minimum level for wages.

Unemployment remained high despite the acceleration in GDP growth since 2003, but fell according to the official statistics for the first time below 9% in fiscal year 2008. Many jobs will have to be created in order to absorb the new entrants in the labour market and the existing unemployed. There is a substantial gender gap overall (around 5.5% for men and 18% for women – according to labour force quarterly data compiled by ILO) and youth

unemployment remains high, also among males. In July 2008, Egypt started developing its Youth Employment National Action Plan. The plan aims at increasing youth employment and promoting decent, productive job opportunities for young job seekers and enhancing vocational training.

The Egyptian Observatory for Education Training and Employment (EOETE) continued to be developed as part of the policy measures for reducing unemployment. In 2008, the Observatory's work concentrated on developing methodologies for labour market forecasts and databases on labour market information and educational training provision. After several years of suspension, Egypt revived the Executive Committee of the Supreme Council for Human Resources Development. The Industrial Training Council, whose task is to coordinate all training programmes, was consolidated and similar councils were created for building and construction, and for tourism.

On **social inclusion**, Egypt continued its efforts to modernise its social system by 2010. Work is on-going to introduce a new pension system in 2009. Furthermore, the Ministry of Social Solidarity completed the identification of eligible groups for social welfare with a view to setting up a data base of households eligible for social welfare programmes. Pilot experiments started in order to define the health insurance model. Studies are being finalized to ensure the fiscal sustainability of the future universal health insurance. The improvement of the capacities of the Health Insurance Organisation as well as the renovation of primary health care services are ongoing.

During the reporting period, Egypt continued to enhance the participation of **women** in political, economic and social life, in particular through the activities of the National Council for Women and the creation of a Women's business development centre. In February 2008, an Egyptian court appointed a woman to perform and register marriages, the first such appointment in the country's history. While the participation of women in higher education is on a par with that of men, their subsequent integration into the labour force (27%) remains a concern. The gender gap is considerable, with unemployment affecting females 2.5 times more often than males. A pending challenge is to absorb young women. The Council's Ombudsman office, supported by European Community funding, was expanded through branches in a number of governorates. Egypt has also developed a strategy to empower women at the workplace. Equal opportunities' units are being introduced in line ministries. At the Annual Congress of the NDP in November 2008, President Mubarak called upon the government to put forward legislation to be in place for the parliamentary election in 2010, aimed at increasing the number of seats for woman in the People's Assembly and Shura Council. However, issues such as unemployment and the pay gap between women and men remain a challenge.

Egypt continued to develop its national strategy on **sustainable development**, involving stakeholders such as the ministries, the private sector, civil society as well as the media and research sectors. The work on a framework document for sustainable development progressed during 2008, but was not finished. Once finalised it will be incorporated into the updated National Environmental Action Plan (NEAP) and the National Strategies (e.g. for water, transport, energy).

Egypt continued implementing its National Strategy on **Agriculture**, currently covering the period until 2017, and is working on a new National Strategy up to 2030. The revised Strategy aims at ensuring food security and at improving income and living conditions of rural

population. The Strategy focuses on: 1) modernising irrigation techniques, aiming at a sustainable management of water resources; 2) increasing soil yields with new crop varieties; 3) increasing animal production (fisheries, eggs, poultry, milk and red meat); 4) ensuring a balanced use of pesticides and fertilizers; and 5) giving a key role to cooperatives in the implementation of the Strategy. Egypt established an inter-ministerial core task force to prepare a National strategy on rural development focusing on good agricultural practices, environmental issues, and improvement of basic services for the rural population and developing new economic activities in rural areas. The General Authority for Fish Resources Development (GAFRD), which is responsible for sustainable fisheries management, continues implementing the National Strategy on **Fisheries** and Aquaculture covering the period up to 2030. A multi-annual planning to increase fish/shellfish consumption mainly based on marine aquaculture development and offshore redeployment of fishing effort is being implemented.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Following a slight decrease in 2007, Egypt's exports to the EU rose in 2008 by 13.1% and EU exports to Egypt in the same period increased by 22.2%. The total **trade** volume with the EU was EUR 20.66 billion in 2008. The EU remains the first trading partner in 2008 with 35% total volume.

The dismantling of industrial tariff is proceeding well, and according to the Association Agreement. Since March 2008, the Government maintains an export ban on rice. The ban is in force until April 2009. Also in March 2008, Egypt banned the export of cement for a period of 6 months, in order to reduce prices of construction material on the local market. Egypt took these measures to face the shortage of certain commodities (in particular foodstuffs and construction materials), and to guarantee social and political stability in the country. Egypt did however not follow the rules of procedure for notification and consultation as laid down in Articles 17 and 25 of the Association Agreement.

On 1 July 2008, the chief negotiators of Egypt and the EC signed a preliminary agreement on further liberalisation of bilateral trade in agricultural, processed agricultural products and fish and fishery products amending the current provisions of the Association Agreement for those products. The agreement will provide for the dismantling of tariffs applied to the trade of agricultural, processed agricultural and fish and fishery products, leaving only a very limited number of sensitive products subject to certain protections on both sides.

Work is ongoing towards the establishment of a dispute settlement mechanism for an effective resolution of trade disputes in the framework of the Association Agreement. The bilateral negotiations on the liberalisation of trade in services and the right of establishment were launched in 2008. Deeper discussions on the overall objectives of these negotiations and on sectoral provisions are needed in order to move forward according to the planned timetable. Egypt actively participated in the Trade Senior Officials' Working Group set up to draw a Euromed Roadmap of next steps in the field of trade till 2010 and beyond. The Roadmap is due to be adopted at the Trade Ministerial in autumn 2009.

Despite some small progress, the results of the implementation of the Agadir Agreement appear to be modest and trade between the four countries (Jordan, Egypt, Morocco and Tunisia) remains limited also due to the presence non tariff barriers. Egypt, along with the other three partners, implements the pan-euro-med system of cumulation of origin in the framework of the Agadir Agreement. However, practices such as the *ad hoc* arrangement for the importation of specific products manufactured in the context of the Agadir Agreement

should not be encouraged as they derogate from the pan-euro-med rules of origin. The same goes for the agricultural and processed agricultural products, covered by the Agadir Agreement, to which pan-euro-med cumulation of origin in practice is not applied.

The Egyptian **Customs** Authority progressed with the implementation of the 2007 comprehensive reform of the customs sector. The reforms subdivided the customs territory in three regions acting independently from each other under the supervision of the customs Commissioner and aimed at simplifying customs procedures by reducing their numbers. The Authority introduced several Modern Customs Centres (MCCs) serving as a one-stop shop and coupled by logistic centres allowing for faster streamlined customs procedures. The MCCs, where other border agencies such as the General Organization for Export and Import Control (GOEIC) are also present, were established in the main ports and airports.

The 1963 customs law is being updated. The new law, which is expected to be adopted in 2009, will introduce, amongst others, new provisions on intellectual property rights, origin, deferred payments, higher penalties for smuggling based on international standards. It will also regulate electronic signature and simplify the procedures, shifting tasks from the administration to traders. Work is also ongoing in order to strengthen the computerisation of the Egyptian Customs Authority and the current automated customs system will be extended to cover the entire system by the end of 2009. The concept of post clearance control is developing, however further efforts are necessary in the area of risk management.

The Egyptian Customs Authority is implementing a comprehensive training plan for customs officials with the aid of foreign donors. Egypt made some progress in order to increase the transparency of customs rules and tariffs and public access to customs-related information but the Customs Authority's website is not fully operational in English yet and further work is needed. A code of ethics based on international standards is also being implemented.

On free movement of goods and technical regulations, Egypt continued preparations for the negotiations of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Selected priority sectors include construction products, electrical appliances, pressure equipment, medical devices, gas appliances and machinery. On the occasion of the annual stakeholders' meeting on the Euro-Med Charter in Cairo in March 2008, the European Commission's experts assessed the Egyptian progress towards the ACAA negotiations. The alignment of the legislation in the priority sectors and the upgrading of quality infrastructure have begun, but the horizontal legislation is not yet harmonised with EU rules and standards. The adoption of EU standards in the priority sectors progressed well. Further progress is required in accreditation, metrology, conformity assessment procedures and post-market surveillance systems. In order to separate standardisation, managed by the Egyptian Organisation for Standardisation (EOS) from testing, Egypt announced the creation of a new testing laboratory: the Central Laboratory for Industry. A Ministerial Decree is under preparation. Also, a presidential decree on market surveillance on food and pharmaceutical products is underway. The National Institute for Standards (NIS) responsible for scientific metrology was accepted as a liaison organisation to The European Association of National Metrology Institutes (EURAMET).

Regarding **sanitary and phyto-sanitary** issues, Egypt took further steps to prepare a law on the agro-industry, which includes, *inter alia*, the establishment of a single food safety authority. It adopted a decree aiming to introduce in food and beverage establishments high hygiene standards based on the Hazard Analysis Critical Control Point system (HACCP). In the 2007/2008 season, for the first time, no interceptions took place regarding potato exports

to the Union. In November/December 2008, the European Commission's Food and Veterinary Office (FVO) carried out a mission to Egypt on the issue of aflatoxine (a contaminant) that was repeatedly found in peanuts imported from Egypt. Egypt continues to take measures to fight the consequences of the serious avian influenza outbreak of 2006, which caused human fatalities. In this context, Egypt hosted in October 2008 an international conference on avian influenza and influenza pandemic preparedness. Egypt continued to participate in workshops under the European Commission's "Better training for safer food" programme.

In order to improve the **business climate**, the Government continued implementing a strategy for regulatory reform and administrative simplification ('Errada'). The strategy aims to revisit regulations and legislation related to economic activity.

As regards **establishment and company law**, the Government Authority for Free-zones and Investment (GAFI) offers one-stop shop services to carry out all licences required for the establishment and operations. The Social Fund for Development (SFD) also set up one-stop shops in many governorates to lessen the burden associated with company registration. Egypt established over the reporting period one stop shops in Cairo, Alexandria and Port Saïd, thus simplifying the procedures and reducing the time span to establish a company (48 hours). Commercial registration fees were also reduced. There is also a department in charge of answering questions of investors. Corporate governance rules are being set down for insurance companies and mortgage lenders to promote greater transparency and stability. Corporate governance standards are also being introduced for state-owned enterprises. Finally, a Corporate Responsibility Institute was established in March 2008. Egypt is working on modernising its bankruptcy legislation. In October 2008 a new Economic Courts Law entered into force (see also section 2).

On **financial services**, Egypt continued implementing the financial sector reform programme (FSRP) in line with the international best practices. The reforms target the foreign exchange market, the monetary policy framework and the banking and the non-banking financial sectors. The banking sector reform aimed to privatise and restructure major state-owned and joint-venture banks. In 2008, the Central Bank of Egypt (CBE) implemented Basel II principles for effective banking supervision. Egypt plans to consolidate its various regulatory bodies for financial services into a unified financial supervision authority. A draft law was already prepared. The insurance market is currently regulated by the Insurance Supervisory Authority, which will be merged with the Mortgage Finance Authority and the Capital Market Authority. The Investment Authority will remain as a separate body.

Reports by PM Nazif in 2007 that the state would auction 67% of *Banque du Caire* have stalled following strong criticism from the public and political opposition alike. In June 2008 the government called off the auction of the Bank citing that the offers submitted by five foreign banks were below-value bids.

Other key areas

Due to efforts in upgrading its **tax** administration and collection procedures and despite the decline of the corporate tax rate from 40% to 20%, and personal tax rate from 32% to 20%, the tax revenues increased from EGP 75.76 billion in the fiscal year 2005 to EGP 137.38 billion in fiscal year 2008. According to estimations, tax revenues for the fiscal year 2009 are foreseen to increase to EGP 166.569 billion.

The Egyptian Competition Authority (ECA) continued to pursue violations of **competition** rules. Adopted in June 2008, the amendments to the 2005 Competition Law vested some

increased powers in the Authority, which is an independent body under the authority of the Prime Minister and has its own budget. The amendments included increasing the maximum penalty for the violation and to double the penalty in case of repeated violation. As part of the leniency programme, the amendments granted partial immunity to the first cartel member of an industry that provides evidence to the Authority. With regard to state aid, the Egyptian law addresses the issue of state aid in the sense of the WTO definition of subsidies.

Limited progress was made as regards **intellectual property rights**. Egypt has not yet ratified the Madrid protocol relating to the Madrid agreement concerning the international registration of marks, nor the Treaty on the International Registration of Audiovisual Works. The newly established economic courts are now in charge of intellectual property rights issues. On the enforcement side, procedures for the registration of pharmaceutical patents are being reduced from eight to three months. Burdensome administrative procedures, the length of court proceedings as well as the lack of trained staff, both in the police forces and public administration, contribute to the weak enforcement of IP rights. Circulation of counterfeit and pirated goods is still widespread. Awareness activities on IP rights remain a priority. Statistics on the number on seizures and the fines applied are not easily available.

Egypt continued to reform its **public procurement** system towards more transparency and better competition and works closely together with the OECD.

Egypt continued to improve its statistical system, with considerable assistance from the MEDSTAT programme. A twinning contract in the area of **statistics** was signed in July 2008 to support the Central Agency for Public Mobilisation and Statistics.

Progress can be reported in the field of **audit and accounting**, as auditors are legally liable for reports they sign, not just the company director. The Capital Market Authority as a supervising authority is holding a registrar of Certified Auditors. A quality control unit was established over the reporting period. At the moment, only Egyptian auditing standards are used, however, there are discussions about inter-Arab standards.

With regard to **public finance management**, the second report of the national Transparency and Integrity Committee on Corruption in July 2008, drew attention to the issue of integrity and the determination of indicators for the sound management and expenditure of state resources citing the achievement of due financial control as one of the principal aims of the State budgetary policy.

On **enterprise policy**, Egypt assessed its progress in implementing the Euro-Mediterranean Charter for Enterprise. Results were compared at regional level and presented to Euromed Industry Ministers in November 2008. Egypt has progressed in most sectors covered by the Charter, with the exception of education and training for entrepreneurship. Egypt's strong points include policy elaboration and strategic orientation. A national strategy for micro- and small enterprises 2008-2012, a national strategy for micro-credit, and an industrial development strategy are in place. The main challenges ahead lie with policy implementation extending to the whole country and reaching the largest possible numbers of enterprises, including SMEs. In April 2008 the EU-Egypt Innovation Fund (EEIF) was created, which is the main component of the Research, Development and Innovation (RDI) programme. The Fund supports projects for applied research and operates on a competitive basis. In addition, the European Commission has signed a Cooperation Agreement with the Egyptian Ministry of Trade and Industry that coordinates a network ensuring Egypt's participation in the Enterprise Europe Network (EEN).

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The second meeting of the EU Egypt Sub-committee on Justice and Security was held in June 2008.

There is no specific progress to report on **border management**. Although mentioned in the Action Plan, no dialogue has yet taken place on this issue.

In the area of **migration**, there was limited progress throughout 2008. A positive development was the admission of Iraqi refugees to benefit from social assistance. Dialogue and cooperation between the EU and Egypt on migration issues continued expanding steadily, particularly in the context of the Working Group on Migration, Social and Consular Affairs and the subcommittee on Justice and Security, which met in June 2008 for the second time. Egypt is benefiting from several projects under the AENEAS programme with particular focus on dissemination of information on legal migration. On violation of the rights of migrants, refugees and asylum seekers, see the section on human rights.

With regard to the **fight against organised crime**, in February 2008 the National Committee to Combat and Prevent Trafficking in Persons established a committee to draft comprehensive **anti-trafficking** legislation in line with UN guidelines and relevant regional and international agreements. A special unit of the National Council for Childhood and Motherhood (NCCM – see section on Human Rights) launched a study to identify the scope of the problem of child and adult trafficking while the Child Law criminalises child trafficking with stiff penalties. Training workshops were organised for judges, prosecutors, relevant Ministry staff and social and legal experts. Egypt pursued efforts to combat organised crime and trafficking networks as well as a policy to combat internet use for terrorist purposes. Egypt did not ratify the Third Protocol to the United Nations Convention against Transnational Organized Crime, on the Illicit Manufacturing of and Trafficking in Firearms, Their parts, Components and Ammunition.

With regard to the **fight against drugs**, cooperation between the Anti-Narcotics General Administration (ANGA) and the United Nations Office on Drugs and Crime (UNODC) succeeded in controlling and reducing supply during the reporting period. Regional cooperation through the Arab Narcotic Bureau also yielded success, while anti-drug cultivation campaigns were launched in remote regions. Capacity building of ANGA personnel in terms of detection methods and application of information technology remains a priority alongside cooperation and coordination with relevant authorities in neighbouring ENP and Arab countries on intelligence exchange and on arrest of narcotic traffickers. The Ministry of the Interior in cooperation with the Ministry of Foreign Affairs provided training for police officers from the Arab League and African countries and cooperates with other international partners on precursor detection methods. In June 2008, the Fund for Drug Control and Treatment of Addiction in cooperation with the National Council on Addiction Control and Treatment finalised a national strategy on demand reduction and particularly in the areas of prevention, harm reduction, treatment and research. Specialized professional training and a variety of therapeutic services including detoxification were delivered alongside the provision of a national drugs hotline. Young people including university students are a particular high risk group for which specific awareness raising and prevention programmes are important.

Egypt adopted amendments to the 2002 Law on combating **money laundering** in June 2008 to include designated non-financial businesses and professions, such as real estate agents, as well as charities and foundations under its scope. Supervision authorities take into account the 40 plus 9 Special Recommendations of the Financial Action Task Force (FATF), while KYC (know your customer) and KYB (know your business) practices have been introduced to the financial services industry. Moreover, the Financial Intelligence Unit within the Central Bank is obliged to report back to financial institutions and designated non-financial businesses on the use made of provided financial information. The FIU continued regional cooperation within the Middle East & North Africa Financial Action Task Force (MENAFATF) and Egmont Groups. The Egyptian Banking Institute continued training for banking and financial professionals on anti-money laundering as part of its core activity while law enforcement agents were also targeted to improve their capacity to report suspicious transactions.

With regard to international **police and judicial cooperation**, Egypt is a member of the Hague Conference on Private International Law and continues work on the signature of the various relevant instruments. Egypt appointed a liaison judge and prosecutor from the Ministry of Justice to work on issues related to the Hague Conference. Consultations with France and Italy are ongoing with regard to the compatibility of bilateral agreements on mutual legal assistance and future cooperation with the former in the framework of Council of Europe Convention on Mutual Assistance in Criminal Matters.

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

Egypt is reviewing its existing national strategy for the **transport** sector, reported on last year: the “Multimodal transport and logistics system of the Eastern Mediterranean region and master plan in the Arab Republic of Egypt”, with a view to establishing a long term national strategy including the required transport investments over the next 20-25 years. Egypt set up a special unit in the Ministry of Transport in order to launch a number of Private Public Partnership projects in the road and rail sectors.

In the road sector, Egypt adopted a new traffic law that will allow it to effectively implement its road safety action plan. Enforcement is being coordinated between the Ministry of Transport and the Ministry of Interior. The Egyptian General Authority for Road Bridges and Land Transportation (GARBLT) is engaged in carrying out road safety audits, redesigning infrastructure and strengthening its administrative capacity through intensive training.

In the railway sector, which is the backbone of passenger transport in Egypt, a number of structural reforms are planned in three phases (restructuring, commercialisation and expansion) over the next five years. The first phase of separating the railways into distinct entities (freight, passenger, and infrastructure) was completed by June 2008. A new “Safety and Risk Management Department” was set up in May 2008. As an important step in restructuring the railways, the Egyptian Government agreed to compensate the railways for their public service obligations, namely the reduced tariff obligations (for e.g. students, Government employees and other categories of passengers).

In line with the agreement between the European Commission and the Egyptian authorities to amend the bilateral air services agreements in force with Member States and to bring them into conformity with EU law, Egypt has replaced the traditional nationality restrictions with a Community designation clause in seven of the bilateral air services agreements existing with EU Member States. However, the majority of bilateral agreements is still not in conformity

with Community law and the process needs to be continued. To this purpose, the European Commission is maintaining its offer to negotiate a horizontal agreement with Egypt, which would allow amending the remaining bilateral agreements on behalf of the 27 Member States. In the field of civil aviation, Egypt made efforts to reform the sector and upgrading existing infrastructures. However some issues such as the privatisation of ground handling equipment are still pending. The Ministry of Civil Aviation is promoting Cairo International Airport as a hub.

In the maritime sector, Egypt finalised a master plan for the development of East Port Said. Maritime safety remains an issue of concern and Egypt will need to step up enforcement in order to remove Egypt from the black list of the Paris Memorandum of Understanding on port state control. A twinning project with the Maritime Safety Authority continued to be implemented.

Egypt and the EU enhanced **energy** cooperation *inter alia* by the signature, in December 2008, of a Memorandum of Understanding on a strategic partnership on energy. Egypt is a significant oil producer and the sixth largest natural gas supplier of the EU. It wishes to become an energy bridge connecting the Mashraq, Iraq, the Middle East, Africa and the EU. Egypt continued preparing a new energy strategy until 2030 and studied the potential to use oil shale and uranium reserves. Egypt, facing high electricity demand growth, continued electricity sector reform and progressed on a draft electricity law, which aims to introduce gradual market opening. Egypt pursued the preparation of a draft gas law and confirmed plans to establish a gas and oil regulatory body. [Egypt increased energy subsidies considerably](#). Egypt studied methods to address price distortions, while taking account of social impact.

In April 2008, Egypt participated in an EU-Mashraq Ministerial meeting which promoted energy cooperation in the Mashraq and the completion of the Arab gas pipeline. Ministers of Egypt, Lebanon, Jordan and Syria agreed to take steps to connect the pipeline to the European network. Gas exports to Jordan started through this pipe. Egypt pursued a strengthened role in the EC supported Euro-Mashraq gas master plan project, which contributes to developing a Euro-Mediterranean natural gas market. It constructed domestic gas pipelines and studied interconnection possibilities with Gaza, Libya and Sudan. A pipeline to Israel was completed and Egypt started gas exports. Egypt has plans to expand Liquefied Natural Gas and refinery capacity.

Egypt continued work on electricity interconnections with Mashraq and Maghreb countries, which serves the development of a Euro-Mediterranean electricity ring. It assessed the possibilities to enhance interconnections with Gaza and to create interconnections with Sudan and Ethiopia as well as with Gulf countries. Egypt, Jordan and the Palestinian Authority explored the feasibility for further network interconnections.

Egypt took some measures to enhance renewable energy use and an energy efficiency master plan and biofuels strategy are in preparation. In 2008, Egypt became host country to the EC, Denmark and Germany-funded Regional Centre for renewable energy and energy efficiency for Middle East and North Africa countries. The Centre was inaugurated in June 2008 and is supported by the EC, Denmark and Germany. The Supreme Council for Energy approved the objective to meet 20 % of electricity demand by renewable energy by 2020. Egypt further constructed major wind farms and (small) hydro plants and developed plans for a thermal solar plant. It benefited from a substantial allocation of the Neighbourhood Investment Facility (under the European Neighbourhood and Partnership Instrument) for the wind farm at Gulf of El-Zeit. Egypt pursued Euro-Mediterranean energy cooperation, in particular through

the multiple projects (see Sectoral report). The July 2008 Summit of the Union for the Mediterranean endorsed the development of a Mediterranean Solar Plan.

Egypt confirmed plans to build nuclear power plants and prepared a draft nuclear energy law, which includes the establishment of an independent nuclear regulatory body. In May 2008, the European Commission and Egypt held a workshop on nuclear safety and security, which was followed up by an EC mission aiming to develop a nuclear safety cooperation programme. It is key that Egypt will ensure a high level of safety and security of nuclear installations and that the research, development and use of nuclear energy for peaceful purposes are carried out in a manner consistent with the objectives of the Non-Proliferation Treaty.

In the field of **climate change**, Egypt continued preparing a second national communication, a greenhouse gas inventory, an assessment of climate impacts and adaptation measures. Egypt prepared further Clean Development Mechanism (CDM) projects. Four of the 45 Egyptian projects that have been submitted to the Designated National Authority are registered at the UN level. Egypt has not yet adopted a formal position regarding the post-2012 climate regime. Egypt and the European Commission took steps to enhance contacts on climate change.

The national **environmental** action plan (2002-2017) is under implementation. The legislative framework continues to require further development, in particular with regard to implementing legislation. In this respect, Egypt initiated a revision of the 1994 Law for the Protection of the Environment. Implementing legislation on water quality in the Nile Basin was adopted. New legislation on water and wastewater is under preparation. A rural sanitation strategy was finalised. Work continued to develop a national master plan for water and wastewater, a national solid waste strategy as well as a coastal zone management strategy. The long term assessment of future water resources “Vision of 2050” continued. Egypt also took steps to implement existing strategies and plans, but continued attention is required.

Steps were taken to strengthen administrative capacity in the field of waste policy, But a major challenge is still to strengthen administrative implementation capacity at all levels of the country, including coordination between authorities. Some activities took place to integrate environment considerations into other policy sectors such as agriculture and energy. Monitoring and enforcement still require special attention. Egypt continued to publish environmental information on a regular basis, such as reports on the state of the environment (on 2007, published in 2008), and carried out some activities to inform and involve the public. A communication strategy is in place which addresses, *inter alia*, environmental education and public participation. However, public consultation continues not to be mandatory for all environmental impact assessment studies.

Egypt started procedures for ratifying the amendments to the Land-Based Sources Protocol to the Barcelona Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean, and to accede to its Integrated Coastal Zone Management Protocol, but did not make significant progress in signing its new Emergency Protocol. Furthermore, the implementation of already ratified agreements requires particular attention. Egypt continued to participate in the Horizon 2020 Initiative, the Mediterranean Action Plan and the EU Water Initiative, including a national policy dialogue. Egypt also participated in the December 2008 Euro-Mediterranean Ministerial Conference on Water, launching the preparation of a regional water strategy for the Mediterranean. Cooperation and information exchange took place between the European Commission and Egypt, including on water, waste management, integrated coastal zone management, environmental reporting and civil

protection. Other topics, such as further actions on water, were identified for possible closer cooperation.

In the field of the **information society**, the National Telecommunication Regulatory Authority (NTRA) revised the Universal Service policy in order to provide basic telephony for all households. The NTRA introduced number portability for mobile telephony and will implement it for fixed line services once a second fixed operator has been licensed. Furthermore, the NTRA obliged Telecom Egypt to proceed with accounting separation and with the development of a model for cost-oriented interconnection charges. A twinning project strengthening the capacity of the NTRA was launched during the reporting period; it covers organisation and management of NTRA, approximation of Egyptian regulations with the EU framework and monitoring of competition in the sector. During the first phase of implementation in 2008, experts from the Italian and German regulators for electronic communications visited Egypt.

A new law on the regulation of **audiovisual** services and the Internet ('broadcasting law') was presented to Parliament in 2008. The law aims *inter alia* at putting different kinds of media and broadcasting under a national regulatory authority with the power to issue licences, and to remove them under certain circumstances (such as in cases of threats to social peace, national unity, public order and society's values). It allows for prison sentences and fines against journalists. During 2008, legal action was taken against Al Jazeera in Egypt (for broadcasting worker demonstrations in Mahalla in April) and against a local supplier of broadcast services and equipment to many foreign news media. In February 2008, Egypt, with Saudi Arabia, successfully sponsored an Arab League non-binding resolution seeking to regulate satellite TV stations and programme content.

In the area of **research and innovation** Egypt is successfully implementing its national reform strategy (2007-2012). The second meeting of the Higher Council for Science and Technology was held in July 2008. During this meeting a list of broad national priorities was adopted as the first phase of a priority-setting exercise. The new Fund for Science and Technological Development (STDF) completed its first round of proposals in autumn 2008. Eighty-six proposals were selected for funding, most of which were for basic and applied research. The first call for proposals under the EU-Egypt Innovation Fund (EEIF – see section on enterprise policy) was completed in October 2008. The results were beyond expectations, both in terms of the number and quality of proposals submitted. In preparation for the next round of EEIF calls within the EU Research and Development and Innovation (RDI) programme, key topics for research and innovation have been identified in collaboration with the research and industrial communities. Under FP7, Egyptian researchers were particularly successful in their participation in the Marie Curie International Research Staff Exchange Scheme (IRSES), which aims at strengthening research partnerships through staff exchanges and networking between European research organizations and organizations from third countries. The network of FP7 focal points contributed to making Egypt's participation the highest among Mediterranean partner countries. Health, environment, food, agriculture & biotechnologies as well as Information and Communication Technologies were identified as thematic areas of Egypt's main interest.

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

Reform of the **education** system has been carried out under the National Strategic plan 2007-2012 focusing on basic education, general, technical and vocational secondary education as well as special needs. Additional reforms under the National Strategic Plan for the Reform of

Pre-University Education (2007–2012) concentrate on quality enhancement, system management, equal access, decentralization and community participation. Measures undertaken to date include a first phase of a teachers' career framework (*cadre*) and expansion of early childhood and girls' education provision.

In the area of **higher education**, the Ministry of Higher Education developed the second phase of the Higher Education Enhancement Plan 2008-2012, alongside a forecasting perspective for the period 2015-2022. The plan focuses in particular on the level and distribution of resources including measures to encourage balanced higher education enrolments between all governorates, away from larger urban centres. The National Authority for Quality Assurance and Accreditation started work on the accreditation of all Egyptian educational institutions while as of May 2008, national panels were convened to review and monitor strategic education reform objectives. In this context, Egypt signed a Financing Agreement of EUR 120 million with the European Commission for an Education Sector Policy Support Programmes in June 2008. Increases in school enrolment and consequent decrease in youth illiteracy were noted. However, tangible improvements to the quality of education, especially the pursuit of decentralization, community involvement and attention towards human resources development remain policy challenges. Measures to enhance links between higher education institutions, industry and innovation centres are also important in this regard.

Illiteracy remained a key area of concern requiring a concerted response. The General Authority for Literacy and Adult Education launched a plan to combat illiteracy, which was presented to the EU in July 2008. It aims at decreasing it by half in 2015. The National Plan for Adult Literacy uses an innovative approach combining educational instruction and vocational activities to equip new literates with skills targeting local labour market needs. It prioritises young people and women in rural areas.

Reform of Technical Education and **Vocational** Training continued with significant EC and international donor assistance in line with the principles established by the 2002 policy statement and employment reform. The development of labour-market relevant training, quality assurance and accreditation mechanisms as well as governance and financing reform remain important in order to foster the transition to a decentralised and demand-led system. Egypt aims to establish a national qualification framework based on the European Qualifications Framework.

A total of nine Egyptian students and five scholars received scholarships under Erasmus Mundus. A further four Egyptian students received scholarships in European integration studies at masters level for students from the ENPI region under a special pilot project for the academic year 2008-9. Egyptian universities and higher education institutions participated actively in first Call for Proposals under Tempus IV, resulting in seven projects selected for the academic year 2008-9. Egypt hosted the inter-regional Tempus Conference on Quality Assurance in Higher Education in May 2008 gathering some 250 participants from all 28 participating countries, contributing to a regional policy dialogue on how to enhance educational quality and student participation in higher education provision.

In relation to **youth** policy, the National Council for Youth (NYC) continued work on a four-year action plan (2006-10) to review current youth-related legislation while the Ministry of Manpower and Migration is developing a Youth Employment National Action Plan. The absence of a comprehensive policy and coordination between Ministries, state agencies and civil society organizations hinders the emergence of effective, cross-sectoral youth

development actions. In the area of non-formal education, an increase in the number of youth leadership development programmes was noted including those provided by civil society organizations. Egyptian young people and youth workers benefitted from exchanges and voluntary service activities under the Euro-Med Youth III programme as well as under Youth in Action.

On **culture**, Egypt participated actively on a regional level in the Euromed Heritage III programme in areas such as the establishment of a virtual museum on Islamic art in the Mediterranean and the rehabilitation of traditional Mediterranean architecture. The Anna Lindh Foundation, based in Alexandria, launched its “1001 Actions for Dialogue” campaign in May 2008 as part of the Euro-Mediterranean Year for Intercultural Dialogue. The Egyptian National Network is the second largest, involving some 115 members, including academic institutions and NGOs active in the fields of youth, community development, environment, the arts, human rights and the media,

Egypt pursued **health** sector reform targeting, *inter alia*, the implementation of a “Family health model” throughout the country. The overall objective is universal coverage, financial sustainability and high quality of healthcare. On the basis of the investment plan 2007-2010 Egypt implemented further “Family health units” in its governorates. It prepared a draft health insurance law. In November 2008, Egypt and the EU co-chaired the second Euro-Mediterranean ministerial health conference. The conference, held in Cairo, opened new perspectives for regional health cooperation. The European Commission invited Egypt to the EU Network of competent authorities in health information and knowledge. Egypt continued to participate in the “EpiSouth” network for EU, Mediterranean and Balkan countries on communicable diseases.

8. FINANCIAL COOPERATION

The ENPI financial envelope for Egypt under the National Indicative Programme 2007-2010 is EUR 558 million. An additional EUR 10 million was allocated in support for education reform in 2008. The programme is geared towards supporting the achievement of key policy objectives as outlined in the Action Plan and pursues three priorities: political reform and good governance; competitiveness and productivity of the economy, as well as socio-economic sustainability of the development process.

The implementation of the measures covered by the 2007 Annual Action Programme is underway.

In 2008, the European Commission continued to support the national reform efforts in Egypt and committed assistance for a total amount of EUR 149 million under the ENPI. Within this envelope, EUR 3 million were allocated to support the Egyptian government's efforts to improve good governance in public administration. EUR 17 million were earmarked for the promotion and protection of human rights focused on civil and political rights, women and child rights and environmental rights, supporting both Government institutions and civil society organizations. EUR 80 million were directed at a policy support programme in the transport sector covering administrative, regulatory and legal issues in the land, rail and inland waterway sectors. The overall aim of the reforms is to improve access and quality of transport.

The 2008 package includes a further EUR 29 million to improve water and waste water services. These funds will be combined with other European donors (KfW, EIB and AFD)

and those of the Egyptian government for a total project value of EUR 295 million. The project will improve water quality and output as well as wastewater services in several governorates, directly benefitting over 4 million people.

Finally, an additional EUR 20 million was allocated to further strengthen the Education Sector Policy Support Programme (ESPSP), which had already received EUR 120 million in 2007. Education reform is a key element of the Egyptian Government's reform agenda which is supported by several donors. The overall aim is to improve the quality and access to education, particularly to disadvantaged children, while improving cost effectiveness and financial sustainability.

Egypt makes good use of the Twinning instrument and the possibilities offered under TAIEX, such as study trips and experts' workshops allowing the sharing of EU experience in a wide range of policies. 14 Twinning projects are currently under implementation, 10 projects were launched in 2008 in sectors such as transport (maritime, road, railways), tourism, postal services, telecommunications and environment.

In addition to the bilateral allocation, Egypt also benefits from cooperation activities financed under the ENPI multi-country (including the Neighbourhood Investment Facility) and regional programmes and is eligible under the ENPI Cross Border Cooperation component. Under the Neighbourhood Investment Facility (NIF), contributions for two projects in Egypt were approved in 2008, committing EUR 10 million in grant support and EUR 5 million in technical assistance, expecting to leverage EUR 420.5 million in loans from European Finance Institutions in the energy and social sector.

In 2008 the EIB signed a EUR 260 million EIB loan with the Egyptian national gas company EGAS for the expansion of the national gas grid and approved sovereign loans of EUR 70 million for the Improved Water and Wastewater Services project (IWSP) and EUR 50 million for the Gabal el Zayt Windfarm project. In addition to its long-term lending activity, the European Investment Bank continues to provide considerable risk capital resources to underpin the successful development of the Egyptian private equity industry, in support of the private sector and the SME sector in particular.

Egypt is an active partner in the CBC Mediterranean Sea basin programme (EUR 173,607 million for the programme in the period 2007-13). Through this programme the populations of the maritime regions bordering the Mediterranean Sea will receive funding for joint co-operation projects aimed at fostering sustainable development and enhancing human contacts.

Coordination with other donors has been pursued in the context of the Donor Assistance Group (DAG) in which all major donors are represented. The DAG operates through eight thematic sub-groups. The main obstacle encountered in the implementation of cooperation programme is the lack of internal coordination within the large and complex Egyptian administration.