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Report on EU-EGYPT relations in the framework of the revised ENP (2017-2018)

Introduction

This report covers the period from June 2017 to May 2018. It assesses the achievements and policy developments in Egypt, with a focus on priority areas in our cooperation.

It follows the structure of the EU-Egypt Partnership Priorities 2017-2020 (PPs)¹ adopted at the EU-Egypt Association Council of 25 July 2017. These set out the strategic political framework for political engagement and enhanced cooperation between the EU and Egypt for the period 2017 to 2020, under the revised European Neighbourhood Policy (ENP)².

The PPs aim to address common challenges facing the EU and Egypt, to promote joint interests and to guarantee long-term stability on both sides of the Mediterranean. They are guided by a shared commitment to the universal values of democracy, rule of law and respect for human rights. They include a particular focus on sustainable economic and social development; stronger partnership in foreign policy; and cooperation in the stabilisation process, notably on good governance, human rights, migration, security and combating terrorism. They provide important commitments and references to fundamental freedoms and international obligations, and acknowledge the key role of civil society.

The PPs are the key reference point for setting the priorities for EU assistance to Egypt. This assistance includes the Single Support Framework 2017-2020³, the new bilateral multiannual indicative programme under the European Neighbourhood Instrument (ENI)⁴, aligned with Egypt's own reform process. During the reporting period, EU and Egypt worked closely to ensure and improve implementation of the various EU-funded projects. The share of blending operations in the total EU portfolio continued to rise to roughly 40% of overall commitments. During the reporting period, an amount of EUR 46,388,000 blending grants were committed to leverage more than EUR 819,488,000 in overall financing, with over half of this coming from European Financial Institutions (EFI) loans. Despite the ongoing suspension of disbursements, budget support operations still represented 27% of overall EU commitments to Egypt. They were followed by a mix of other modalities, including indirect management with EU Member States and International Organisations, actions implemented by specialised Member State agencies, decentralised cooperation implemented by Egyptian institutions and centralised programmes directly implemented by the EU.

To support the implementation and to reflect the adopted PPs, the Association Agreement subcommittees were regrouped into three thematic clusters. The economy and socio-economic development cluster met in Brussels on 6-8 November 2017. The Subcommittee on Political Matters, Human Rights and Democracy - International and Regional Issues convened in Cairo on 10-11 January 2018. The Stability cluster, covering justice and security, migration, consular and social affairs, met in Cairo on 15 March 2018. These meetings took stock of the current cooperation in these different areas, and pinpointed several key deliverables for further follow up.

¹ <https://www.consilium.europa.eu/media/23942/eu-egypt.pdf>

² https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/neighbourhood/pdf/key-documents/151118_joint-communication_review-of-the-enp_en.pdf

³ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/single-support-framework-2017-2020-decision_and_annex_egypt.pdf

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0232>

Against this backdrop, throughout the reporting period the EU and Egypt undertook closer cooperation in many areas of mutual interest. These included key regional issues, such as the Middle East Peace Process (MEPP), Syria, Libya, Africa, and Euro-Mediterranean cooperation. There was an important number of bilateral visits from both sides; on migration, with the setting-up of the Migration Dialogue launched in December 2017; on scientific research, with the signing of an agreement on scientific and technological cooperation setting out the terms and conditions of Egypt's participation in the Partnership for Research and Innovation in the Mediterranean Area (PRIMA)⁵ in October 2017; on EU's support to Egypt's economic stabilisation, with the visit of EU Commissioner for Neighbourhood Policy in October 2017; and on energy, with the visit of EU Commissioner for Energy and the signing of a new Memorandum of Understanding on energy cooperation⁶, in Cairo in April 2018.

During the reporting period the country continued to implement economic reforms in the framework of the IMF-supported economic reform programme. This brought some improvement in fiscal consolidation and macroeconomic indicators, but also led to continued inflation and a reduction of living standards for a majority of the population. Egypt sought to address these consequences through the strengthening of social protection measures, which have been supported by the EU. The country continued to face significant security challenges and suffer terrorist attacks, including the attack on the Al-Rawda mosque in North Sinai in November 2017, in which 311 civilians were killed during Friday prayers, making it the deadliest attack in Egypt's recent history. In response, Operation Sinai 2018 was launched in February 2018 with the objective of restoring security and stability in North Sinai. The nationwide state of emergency declared in April 2017 following the Palm Sunday bombing of two churches continued to be regularly extended, most recently on 14 April 2018 for another three months. Presidential elections were held on 26-28 March 2018 (during the state of emergency) and saw the re-election of President Al-Sisi with 97% of the vote, with a turnout of 41.5%, compared with the 47% turnout in 2014. The elections took place in an overall context of restrictions on freedom of association, assembly and expression, including media freedom. In the region, Egypt continued its extensive foreign policy outreach at bilateral, regional and multilateral level, notably securing the Presidency of the African Union in 2019.

1. Egypt's Sustainable Modern Economy and Social Development

a) Economic modernisation and entrepreneurship

Since mid-2016, Egypt has been implementing an ambitious economic reform plan supported by the IMF (via a three-year USD 12 billion Extended Fund Facility). The reform plan aims at restoring macroeconomic stability and enhancing growth, both of which were severely hit after the 2011 events.

The main measures introduced to bring macroeconomic stability and restore competitiveness were the flotation of the currency in November 2016, the increase in interest rates to contain inflation; the reform of energy subsidies, and the introduction of the 14% value-added tax (VAT) as well as a number of structural reforms in the business-enabling environment. Floating the currency led to a depreciation of over 50%. This raised the cost of non-

⁵ <http://prima-med.org/>

⁶ https://ec.europa.eu/energy/sites/ener/files/documents/eu-egypt_mou.pdf

subsidised imports considerably, leading to high inflation levels (which peaked at 32.5% in July 2017), and increasing the cost of living. It also increased public spending as, in spite of energy subsidy cuts, the import bill for food and fuel increased above expectations. To alleviate some of these pressures stemming from the rising cost of living, notably on the most vulnerable segments of the population, social protection measures were strengthened and food subsidies were increased. Following its peak in July 2017, inflation subsequently declined to 11.4% in May 2018. For the first time since the exchange rate flotation, the Central Bank cut key policy rates in February and again in March 2018 (by 200 bps in all).

Although macroeconomic stability remains fragile, the country started recovering during the reporting period. GDP growth in fiscal year (FY) 2016/17 expanded by 4.2% in real terms and gained momentum in FY 2017/18 to a rate of 5.3%. Unemployment too has performed positively dropping from 11.3% at the end of FY 2016/17 to 9.9% at the end of FY 2017/18. The gas extraction sector boosted growth, notably since the large Zohr gas field came online in December 2017. The improvement in energy supply is starting to have positive spill-over effects on other sectors, especially manufacturing. Tourism rebounded strongly growing by 44.5% in the first half of FY 2017/18, helped by the impact of the currency depreciation and the resumption of Russian flights to Egypt after a two-year suspension. On the external side, in spite of halving in dollar terms, the current account deficit remained unchanged at about 6% of GDP during FY 2016/17 due to the depreciation. However, it is projected to have narrowed to 2.8% in FY 2017/18 thanks to new gas production replacing imports, tourism recovering further and non-traditional exports showing signs of improvement. Net international reserves achieved a new record high of USD 44.1 billion at the end of May 2018 (covering about seven months of imports), more than double the level prior to the exchange rate flotation in November 2016.

Public finances have improved, with an estimated primary fiscal surplus of 0.2% in FY 2017/18. Egypt has still fallen short of its primary deficit targets due to higher-than-expected subsidy costs, but the target of 1.8% of GDP primary surplus at the end of the IMF programme in July 2019 remains in place. This means that consolidation will continue over the third and final year of the programme. Sustaining such a surplus, however, is subject to risks, including from higher oil prices. Tax revenues increased to 14.1% of GDP in FY 2017/18, up from 13.3% for the same period in the previous year, driven mainly by increased revenues from the VAT and from corporate and personal income tax. The civil service wage law has helped contain the public wage bill and efforts are underway to completely phase out energy subsidies by the end of the IMF programme. Savings from both have allowed the government to scale up the allocations for food subsidy and cash transfer programs. Egypt's public debt has decreased to an estimated 91.2% in FY 2017/18 compared to 103.3% of GDP in FY 2016/17, according to Central Bank of Egypt data.

Entrepreneurship has emerged as an area of interest for policy-makers and government agencies. The government's reform programme has sought to tackle business bottlenecks by enhancing industrial licencing, a new investment law creating a more conducive and modern business environment, through its simplification and incentive schemes, and support for micro and small and medium sized enterprises (MSMEs). The EU-funded Inclusive Economic Growth Programme, which started in March 2016, is supporting the implementation of the national SME and Entrepreneurship Development Strategy, and is complemented with a grant scheme to support SME access to innovative business development services. Since December 2016, the EU has been implementing the Facility for Inclusive Growth and Job Creation, a multiannual programme to support the business

enabling environment and promote economic reforms in favour of enterprises. The facility includes EU contributions from the Neighbourhood Investment Facility (NIF); these are expected to leverage almost EUR 400 million from EFIs through blending operations for easier SME access to finance. Under the facility, during the reporting period, the EU started the implementation of two projects, one on international taxation and another on financial inclusion and banking supervision. To improve business linkages, value chains and the export potential of SMEs, two blending operations were signed with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) and have started their implementation. Actions supporting better tax and customs compliance for SMEs and strengthening the ecosystem for innovation among SMEs are under preparation.

Between June 2017 and April 2018, EU-Egypt relations and policy dialogue on research and innovation (R&I) continued to grow stronger as well. On 27 October 2017, the EU and Egypt signed an International Agreement for Egypt's participation in the Partnership for Research and Innovation in the Mediterranean Area – PRIMA (agreement, in force since March 2018). The main objective of the ten-year initiative (2018-2028), partly funded by EU's research and innovation programme Horizon 2020, is to devise new R&I approaches to improve water availability and sustainable agricultural production in a region distressed by climate change, urbanisation and population growth. The budget of the initiative at present is EUR 494 million, of which EUR 274 million comes from Participating States and EUR 220 million from the EU over a ten-year period, starting in 2018; Egypt has committed to contribute up to EUR 30 million for the initiative over the same period. Back-to-back with the signing of the PRIMA agreement, the 7th meeting of the EU-Egypt Joint Committee on Scientific and Technological Cooperation took place in Brussels. To-date, Horizon 2020 has supported the participation of 36 Egyptian organisations and various projects covering a range of areas, such as food security, water management and climate action. In addition, 105 Egyptian researchers benefited from training and mobility under the Marie Skłodowska-Curie programme.

Egypt also remained involved in monitoring and formulating the EU's research priorities with the non-EU Mediterranean countries, thanks to its active participation in the Euro-Mediterranean Group of Senior Officials in Research and Innovation (EU-MED GSO). Following the EU-MED GSO meeting of 28 November 2017 in Brussels, which built on the conclusions in the Valletta Declaration, Egypt is now a member of the GSO BLUEMED working group. This group aims to identify together joint priorities in marine and maritime research and to contribute towards converging research and innovation policy across the region. The EU assisted the Egyptian National Institute of Oceanography in organising a BLUEMED national information and consultation day in Egypt on 19 July 2018.

As for the EU's research policy dialogue with Africa, Egypt and the EU co-chaired the 4th EU-African Union High level Policy Dialogue (HLPD) on Science, Technology and Innovation which took place in Brussels on 17-18 October 2017.

The HLPD adopted the Roadmaps towards our two R&I Partnerships on Food and Nutrition Security and Sustainable Agriculture (FNSSA) and Climate Change and Sustainable Energy (CCSE), respectively. These two Partnerships were acknowledged at the AU-EU Summit of November 2017.

In April 2018, the EU organised a session on science diplomacy and its prospects in the EUROMED region, highlighting EU support for two relevant major science diplomacy initiatives in the region, namely the Synchrotron-light for Experimental Science and

Applications in the Middle East (SESAME) and Partnership on Research and Innovation in the Mediterranean Area (PRIMA). The session took place in Alexandria in the context of the BioVision conference, organised by the Bibliotheca Alexandrina in partnership with the World Life Sciences Forum.

The 8th EU-Egypt Dialogue on Economic and Financial Matters took place in Cairo on 1 June 2017. The dialogue focused on the macroeconomic situation in Egypt and the European Union, including fiscal trends, and monetary and financial sector policies. It also looked at the government's structural reform strategy, with a specific point on Egypt's energy sector reforms and its potential to become a regional energy hub.

b) Trade and investment

The EU remains Egypt's main trading partner, for imports and exports alike, accounting for 29.7% of Egypt's trade volume in 2017. In that year, EU-Egypt trade reached a peak level of EUR 27.9 billion (compared to EUR 11.8 billion in 2004, when the Association Agreement came into force). Egypt's exports to the EU increased by 20.8% in 2017, with agricultural and food exports showing a 10.5% increase. EU exports to Egypt decreased slightly (-3.8%), but the decrease in agricultural and food products was much more significant (close to -25%). This fall is mainly the result of Egypt's currency devaluation carried out in November 2016, coupled with government policy to reduce imports and some substitution by other import origins. As a result, Egypt's trade deficit with the EU decreased by 15.4%, to EUR 11.75 billion.

In 2016⁷, Egypt witnessed a significant reduction in the export of services, due to the reduced inflow of tourists and slightly lower revenues of the Suez Canal due to reduced global trade. In 2016, total trade in services with the EU amounted to EUR 8.6 billion, a 14% decrease from 2015 levels. Data for 2017 is expected to be better, as the influx of tourists from the EU rises. According to preliminary data from the Egyptian statistical office, the number of tourist arrivals from Europe reached 4.7 million at the end of 2017, compared to 2.6 million in 2016, an increase of 81%. The total number of tourists in 2017 was 8.3 million, compared to 5.4 million in the previous year. European tourists made up 57% of all arrivals in 2017, with Germany the number one source of tourists.

The EU also remains the biggest investor in Egypt, with EU Member States' investments totalling EUR 42.8 billion. Overall, Egypt's business environment continued to underperform, only ranking 128th out of 190 in the World Bank ranking Doing Business 2018⁸, down five places from 2017. The new investment law adopted in May 2017 seeks to address existing challenges, including excessive bureaucracy and lack of transparency and to promote foreign investments with further incentives, and simplified and more effective processes. Foreign Direct Investment (FDI) remains concentrated in the oil and gas sector, with renewable energy on the rise (wind and solar). According to data from the Central Bank of Egypt, FDI gross inflows from the EU are increasing, reaching USD 8693.5 million in 2016/2017, up from USD 7876.7 million in FY 2015/2016.

The Economic Sub-Committee cluster, covering trade, customs, transport, agriculture and sanitary and phytosanitary measures (SPS) took place in November 2017 in Brussels.

⁷ Eurostat data for 2017 not yet available.

⁸ <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

Specific transport issues were discussed on civil aviation safety, aviation security and regional cooperation (collaboration with the European transport Agencies and work on the regional transport network). Various trade barriers were discussed, most notably decrees 991 and 43 (both in force since 16 March 2016) mandating special import clearance procedure for 25 categories of goods. These decrees remain in force, despite the fact that foreign reserves are now back to comfortable levels. Between 2015 and 2017, EU imports of goods covered by the decrees fell by 40%. The EU continued to raise this issue at World Trade Organisation (WTO) technical committee meetings in Geneva, insisting on more transparency, speed, and a streamlined administrative process, in order to facilitate trade.

In December 2017, Egypt decided to unilaterally freeze tariff dismantling for EU passenger cars, citing problems with its domestic industry. The EU raised the issue at diplomatic level. Egypt pledged to respect the obligation to fully dismantle tariffs for passenger cars in 2019.

A draft tax incentives scheme targeting the automobile sector was presented to the Egyptian Parliament and withdrawn in March 2017 following strong opposition from EU importers. The EU objected to the draft law on the grounds that several aspects of the scheme were likely to lead to discrimination of EU importers, contrary to Egypt's commitments under the WTO and the Association Agreement.

Throughout 2017 the EU-funded Trade and Domestic Market Enhancement Programme (TDMEP) continued to support the Ministry of Trade, focusing on improving the quality compliance of Egyptian-manufactured products and the potential of Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAAs). Egypt identified gas appliances, construction materials, electrical appliances and pressure equipment as the four priority sectors for creating and/or updating horizontal infrastructures linked to ACAAs (standardisation, metrology, market surveillance, accreditation and conformity assessment). At present, work is most advanced on gas cooking appliances, where Egypt is getting closer to completing EU requirements.

c) Social development and social justice

Egypt ranked 111th out of 188 in the 2016 Human Development Index⁹, published in 2017. Poverty has been rising steadily, and affected 28% of the population in 2015, with poverty rates as high as 60% in some rural Upper Egypt governorates. Around 60 million – or two-thirds – of the population are younger than 29 years; 33% are younger than 15 years. Unemployment remains particularly high among the country's youth (40%).

A number of fiscal reforms in the IMF-supported Egypt economic reform programme (including a new VAT law, reduction of energy subsidies and control of other forms of subsidies and devaluation of the Egyptian pound) led to rising inflation, which peaked at 32.5% in July 2017. It also eroded real incomes, reduced the living-standards of most Egyptians, including the middle-class, and caused hardship.

The savings generated by the reform measures are being partially redistributed to fund social protection programmes like Takaful and Karama. These non-contributory social safety net programmes are so far reaching around 1.7 million households or about 7.5 million beneficiaries. EU cooperation in the social sector addresses this through tailored programmes

⁹ http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf

on: support for the poor and vulnerable with a focus on access to education; school feeding; urban and rural development; inclusive growth; basic services in water/energy and other services. Food subsidies also increased considerably in July 2017, from 21 to 50 pounds per month.

Law 217/17 on trade union organisations was adopted by the Egyptian Parliament on 5 December 2017 and ratified by President Al-Sisi on 17 December. The new law replaces Law 35/1976, which had recognised the Egyptian Trade Unions Federation (ETUF) as the only representative of labour unions in Egypt, thus potentially allowing independent unions to be established simply by notifying the Ministry of Labour and Manpower. The International Labour Organisation (ILO) has, however, expressed concerns regarding membership threshold requirements under this new law that are not in line with international standards and are difficult to achieve¹⁰, as well as the fact that Law 217/17 prohibits trade unions from receiving funding from international entities.

The EU's main employment and social protection programme is the Emergency Employment Investment Project (EEIP) completed in January 2018. It was implemented by the Government's Micro, Small and Medium Enterprises Development Agency (formerly Social Fund for Development) with the assistance from the World Bank. The project has been promoting labour-intensive community services and public works as an effective and well-targeted social safety net. More than 50 000 young people, many of them women, have acquired new skills and been given access to jobs. Nearly 10 000 of them have received specific support to get permanent jobs or start their own business.

Many other major bilateral programmes seek to mitigate the negative effects of economic reforms on the poorest and to improve employability with Technical Vocational Education and Training (TVET). The EU is currently supporting the Government of Egypt in the TVET reform process through the TVET II programme (EUR 50 million, with EUR 67 million in co-financing from the Egyptian Government), implemented by the Ministry of Industry, Trade and SMEs. The programme focuses on improving the structure and performance of the TVET system to better respond to Egypt's new socio-economic needs; on boosting the employability of youth, and on making the country more competitive. The actions focus on six sectors: ready-made garments, agribusiness, food processing, ICT, construction and, first and foremost, tourism. There are also a number of smaller contracts with civil society organisations that are active in the employment and employability domains.

Between 2007 and 2017 the population grew by almost 20 million; it now stands at around 95 million. On 17 January 2018, the EU signed a EUR 27 million financing agreement to support the National Population Council to implement its National Population Strategy 2015-2030, in order to address the important challenges that the rapidly increasing population presents for the country's sustainable development.

In 2017, the EU also embarked in a dialogue with Egyptian partners in charge of vulnerable groups (the National Council for Childhood/Motherhood and the National Council on Disability Affairs) and education (Ministry of Education) to address another priority area in the PPs: promoting social justice. This will pave the way for two actions. The first is a 2018

¹⁰ The new law requires 150 workers for the creation of a labour committee; 15 committees comprising 20,000 members each for a general sectoral union; 10 general unions with a minimum of 200,000 members for the establishment of nationwide federation of trade unions.

action programme supporting the Government of Egypt's efforts to protect children and persons with disabilities from the potential negative impacts of economic reforms. The second, a blending operation with an International Financial Institution (IFI), supports Egypt's new education reform strategy.

Around 57% of Egypt's population lives in **rural areas**, where access to basic services is limited and poverty is well above the national average. The ongoing EU Joint Rural Development programme (EU-JRDP), which started in 2015 for 58 months, has a total budget of EUR 22 million and is implemented in the Governorates of Minya, Fayoum and Marsa Matrouh. During the reporting period the EU-JRDP started to implement actions on the ground to strengthen the capacities of rural associations, both farmers and non-farmers, for the sustainable management of local resources and to explore innovative solutions for generating income. Egypt also continues to benefit regularly from training sessions and workshops organised by the European Commission to ensure that Egyptian agricultural products are of appropriate quality, in particular for export.

Egypt's **cities** have been growing rapidly over the past 50 years and an estimated 37 million Egyptians now live in urban areas. Millions of people are living in informal urban areas, characterised by poor access to basic services and sanitation and an unsafe and highly polluted environment. The EU's support to Informal Areas/Urban housing has three different but complementary pillars: 1) Upgrading of Informal Areas in the Greater Cairo Region (EU grant: EUR 39.2 million, co-funded by the German Development Agency and the German Development Ministry); 2) Integrated Sustainable Housing Programme with the EIB (loan EIB: EUR 45 million; EU grant: EUR 18.5 million); 3) Integrated Sustainable Housing Programme with the French Development Agency, AFD (AFD loan: EUR 80 million; EU grant: EUR 15 million). These operations, running until 2019-20, are meant to improve living conditions and increase job opportunities in selected unplanned areas.

In **health**, the ratification of the Social Health Insurance Law in December 2017 reflects a renewed effort to improve funding and access to a public health care system challenged by underfunding, fragmentation and poor or unverifiable service quality. These challenges did not subside during the reporting period. As a result, the majority of Egyptians continued turning to private health providers. Due to funding shortages, about 60% of the country's total health expenditure was estimated to be privately funded, most of it 'out-of-pocket'. This continued to keep access to services low and contribute to increased poverty rates by almost one million additional poor per year. Against this background, the Health Sector Policy Support Programme II (HSPSP), provided via EUR 110 million in budget support, had focused on primary healthcare (PHC) reform as it provides most of the basic care to the poor. The programme remained on hold during the reporting period. Efforts towards a possible resumption of budget support disbursements in 2018 intensified during the reporting period. The ratification of the Social Health Insurance Law in December 2017 and the political support for its implementation suggest that funding and access to health care services might improve over the coming years if extensive technical support – including EU support – is provided.

Egypt continues to make progress towards achieving Education for All and the Sustainable Development Goals (SDGs). For 2016, net school enrolment was 98% in primary schools (up from 91% in 2014/2015) and 82% in secondary schools. Despite this overall progress, socio-economic, geographical and gender disparities continue to limit access to primary education. According to a 2015 study by UNICEF and Egypt's Ministry of Education, 3% or 310,000 children at primary school age never enrolled for or dropped out of school. Moreover, the UN

estimates that less than 1.8% of the 2 million or so children with disabilities in Egypt receive the education services they need. The country's literacy rate (for adults aged 15 years and over) is only 74%. There is an ongoing mismatch between the skills provided by the education sector – including TVET - and the labour market. Against this background, in August 2017 the Minister of Education and Technical Education announced the main features of the education reform programme, together with an initial set of related ministerial decrees. The overall thrust of the reform is to bring back learning to the classrooms. A cross-cutting element is the use of ICT in education, plus the establishment of digital infrastructure in the classroom and at all administrative levels.

The current EU cooperation portfolio in **education and higher education** includes two complementary community primary school programmes (totalling EUR 90 million). One was amended at the end of 2016 in light of the expected impact of the economic reforms, so as to provide meals for up to 500 000 children attending state-run schools in poor governorates. This number will increase during 2018 to reach 1.8 million students. The EU has also been helping modernise and improve Egyptian higher education, notably through Erasmus+. Between 2015 and 2017, the EU granted over 1 670 scholarships to Egyptian students and academic staff moving to Europe and 680 to students and staff coming in the opposite direction. In addition, 124 Egyptian Master's students benefited from a full Erasmus Mundus scholarship over the four last years. The three most recent calls for proposals selected 26 capacity building projects involving Egyptian universities worth a total of EUR 16.9 million (including four coordinated by Egyptian universities). These projects aim at supporting the modernisation of institutions and curricula. Furthermore, between 2014 and 2017, 1 175 young people and youth workers from Egypt took part in Erasmus+ youth exchanges, volunteer work and training opportunities. Finally, 105 Egyptian researchers received Marie Skłodowska Fellowships (under Horizon 2020) to support their mobility.

In 2017, the EU Delegation awarded six new grants in the field of cultural heritage under a call for proposals on cultural heritage for socio-economic development. Linking economic growth to the protection of cultural heritage is proving to be a winning formula for local communities: it increases awareness, gets young people involved through vocational education programmes, and provides support to small and medium-sized enterprises targeting tourism. It also allows the EU to promote cultural diplomacy and start building a strong profile of an institution committed globally to protecting intangible and tangible cultural heritage.

d) Energy security, environment and climate action

A new law regulating gas markets was issued in July 2017. It provides for the establishment of a fully-fledged gas regulator and opens the gas market to private investment in trading, storing, selling, and distributing natural gas. The newly independent regulatory body will supervise the gas market and issue licences to import, transport, and sell natural gas in Egypt.

On 20 December 2017, Italian company ENI produced its first gas from the supergiant Zohr field in record time for this type of field: less than two and a half years. The field contains as much as 30 trillion cubic feet of gas (or about 5.5 billion barrels of oil equivalent). This is the largest gas discovery ever made in Egypt and in the Mediterranean Sea as a whole, and should satisfy part of Egypt's natural gas demand for decades to come.

On 23 April 2018, during the visit of EU Energy Commissioner Arias Cañete, a new framework for energy cooperation between Egypt and the EU came into being with the

signing of a new Memorandum of Understanding on a strategic partnership on energy between the EU and the Arab Republic of Egypt 2018-2022.

In July 2017 a EUR 340 million tender was published for consultancy services of the Gulf of Suez Wind farm co-funded by the EU, the KfW German government-owned development bank, the AFD and the EIB. The contract was awarded in March 2018.

Also in July 2017, the Egyptian Government introduced a range of reforms through increasing its official energy prices (+ 40% on average) in order to significantly reduce fuel subsidies.

In **transport**, the reduction in subsidies and changes in relative prices led to significant changes in activity across the sector. A direct outcome of the increase in fuel prices was an increase in road freight transport costs of approximately 30%, which was passed directly on to the consumer.

On the other hand, the Ministry of Transport (MoT) began operating dedicated freight services by rail, especially to and from the Port of Alexandria, in order to benefit from consumers interested in lowering their transport costs. Other ministry-led reforms undertaken in June 2017 included the expansion of the existing inland waterway port in Damietta through the development of a logistics area. In August 2017 the Cabinet of Ministers approved the Inland Waterway Transport (IWT) Law, including the transformation of the River Transport Authority into a regulator. A month later, the Minister of Transport announced that there were plans to invest EUR 14.4 billion in metro and railway development across the country, targeting the implementation of three new high-speed lines: Luxor-Cairo, Luxor-Hurghada and Alexandria-Cairo.

The Egyptian government ratified the Paris Agreement on **climate change** in June 2017 and it entered into force in July 2017. Egypt's Nationally Determined Contribution (NDC) include a broad range of actions and policies reflecting a balance between mitigation and adaptation, while emphasising the importance of means of implementation including finance, technology and capacity-building. Egypt's NDCs further highlight the importance of renewable energy and energy efficiency. The Egyptian targets remain very ambitious and include doubling the share of renewables within 10 years as well as significantly reducing the energy subsidies. These commitments already appeared in the Egyptian Strategy for Sustainable Development – Egypt vision 2030, adopted in 2015.

Egypt's priorities under the United Nations Framework Convention on Climate Change (UNFCCC) negotiations focus on the importance of equity in the implementation of the Provisions of the Convention and its Paris Agreement, which is currently being operationalised. Egypt is chairing the G77 and China in 2018 as well as the African Group of Negotiators (AGN) and therefore has an important responsibility in coordinating and representing the positions of developing countries during this crucial year, which will witness the conclusion of the process of operationalising the Paris Agreement. To this end, Egypt continues to engage with EU negotiators with the aim of achieving a successful outcome at COP24.

In the **waste sector** a draft framework law expected to reorganise the sector is still under preparation. This reform is supported by the EU (EUR 20 million grant) through the National Solid Waste Management Programme, under which the first supply contracts were signed in April 2018. In the framework of the institutional support provided through this programme,

an independent public agency in charge of solid waste management – the Waste Management Regulatory Agency – was created in 2016 within the Ministry for Environment. Its remit is to modernise the national policy framework and solid waste management programmes. Industrial pollution is addressed in the 3rd Phase of the Egyptian Pollution Abatement Programme (EPAP III), in place since 2016. This initiative includes a EUR 10 million grant contribution from the NIF, along with loans from the EIB, the AFD and a KfW grant to support pollution abatement technologies in the industry.

The EU continues to support the ongoing strategic reform of the Egyptian **water and sanitation** sector through EU-funded Technical Assistance under the Water Sector Reform programme (WSRP-II). Under this programme, the EU assisted in the preparation of the National Water Resources Plan (NWRP 2017-2037), which will support the development and management of the water resources in Egypt until 2037. The EU also supported the preparation of the National Rural Sanitation Strategy to deliver universal access to sanitation in rural Egypt, launched in 2015 and finalised in September 2017. Furthermore, together with EIB and EBRD, the EU co-financed the first two high-priority investment projects resulting from that strategy (the Fayoum Wastewater Expansion Programme and the Kitchener Drain De-pollution Programme). EU-Egypt cooperation in the water sector now covers a wide portfolio of programmes across 12 Egyptian Governorates. It has a total of nearly EUR 340 million in direct grant funds in six different programmes, leveraging funds of nearly EUR 2.1 billion in the sector.

Egypt continued to participate in EU-funded regional projects, including: Switch MED on sustainable production and consumption; the Sustainable Water Integrated Management project (SWIM); projects falling under the Horizon 2020 initiative for the de-pollution of the Mediterranean; and the shared environmental information system support project led by the European Environment Agency.

In the **fisheries sector** Egypt is a contracting party to the General Fisheries Committee for the Mediterranean (GFCM), which in the past year intensified its work to improve the situation of the Mediterranean Sea stocks. The EU invited Egypt to sign the Malta MedFish4Ever Ministerial Declaration¹¹, to work together at GFCM level to improve fisheries governance in the Mediterranean, and to use EU help to modernise its fisheries management.

2. Partners in Foreign Policy

Stabilising the neighbourhood and beyond

During the reporting period, Egypt continued to engage in extensive foreign policy outreach at bilateral, regional and multilateral level, notably securing the Presidency of the African Union in 2019. The country had a seat on the UN Security Council until the end of 2017, and is a member in the African Union's Peace and Security Council until 2019. Egypt has also further asserted its role within the African continent on political, economic and cultural issues.

¹¹ An initiative of the European Commission:
<https://ec.europa.eu/fisheries/inseparable/en/medfish4ever#quicktabs-medfish4ever=6>

The significant number of bilateral meetings and visits from both sides throughout the reporting period allowed for regular consultations on foreign and security policy matters, including Libya, Syria, the Middle East Peace Process (MEPP), the situation in the Gulf, the Horn of Africa and the Red Sea. These included a bilateral meeting between the Egyptian President Abdel Fattah el-Sisi and the President of the European Council in the margins of the UN General Assembly in September 2017 and bilateral meetings between the High Representative/Vice President and the Egyptian Foreign Minister Shoukry in the margins of several international forums. There have been visits to Cairo by the Commissioners in charge of European Neighbourhood Policy and Enlargement Negotiations, Migration, Home Affairs and Citizenship, and of Climate Action and Energy, by the EU Special Representatives for the MEPP, Sahel and Horn of Africa, the Chair of the EU Military Committee, senior officials from the EU institutions, and several European Parliament delegations in the context of the Union for the Mediterranean.

Egypt was invited to the International High Level Conference on the Sahel region in Brussels in February 2018 to support the deployment of the G5 Sahel Joint Force. At the conference, Egypt pledged 250 training courses for military staff of the Force in 2018 in areas such as countering terrorism and demining, along with other training courses to train local leaders in the Sahel Region on radicalisation. Egypt was also invited to participate in the Brussels II Conference on Supporting the Future of Syria and the Region.

Co-operation on international and regional issues was also discussed at the 5th meeting of the Subcommittee on Political Matters in Cairo on 10 and 11 January 2018.

3. Enhancing stability

a) A modern, democratic state

Discussions on bilateral and multilateral cooperation on human rights, democracy and the rule of law at the 5th meeting of the Subcommittee on Political matters, Human Rights and Democracy, International and Regional issues in Cairo on 10-11 January 2018, allowed for a constructive exchange of views on all issues of concern, with a prospect of enhancing cooperation to achieve concrete progress in priority areas.

The visit of the Egyptian Assistant Foreign Minister for Human Rights to Brussels in February 2018 and his meeting with the EU Special Representative for Human Rights confirmed both sides' willingness to enhance cooperation in this area, including through institution and capacity building, especially in the area of international human rights law.

Cooperation has also increased at multilateral level, with Egypt sponsoring the resolution on the Rights of the Child presented by the EU in cooperation with the Latin American and Caribbean Group (GRULAC) at the 37th session of the UN Human Rights Council (HRC). During that session, Egypt presented a voluntary report on implementation of the Universal Periodic Review (UPR) recommendations.

During the reporting period, EU assistance focused on the promotion and protection of human rights, support for civil society and democratic governance. Assistance was provided via ongoing bilateral programmes under the European Neighbourhood Instrument (ENI) with the government, as well as under the European Instrument for Democracy and Human Rights

(EIDHR) and thematic programmes under the Development Cooperation Instrument (DCI). The Financing Agreement for the "Citizens' Rights" project (EUR 10 million – for 2016-2019) provided support to the National Council for Human Rights (EUR 2.5 million) from July 2017. This project also aims to increase women's participation in public life and gender mainstreaming of selected public services. A call for proposals led to the signing of nine contracts with civil society organisations working on women's empowerment and violence against women (EUR 3.5 million) before the end of 2017.

President Al-Sisi declared 2017 the Year of the Egyptian Woman and the Egyptian government took a number of initiatives in the area of women's rights. The passing of amendments to the Inheritance Law by the Egyptian parliament, guaranteeing women the right to receive their inheritance, was a step forward in improving women's legal status in Egypt. Substantial challenges remain, including women's low participation in economic and public life, violence and discrimination against women, child marriages and high rates of female genital mutilation. The EU has been supporting women's rights through the Promotion and Protection of Human Rights programme (EUR 17 million – for 2011-2018). The programme includes initiatives on "Securing Rights and Improving Livelihoods of Women" and on "Abandonment of female genital mutilation and Empowerment of Families".

The law establishing the National Authority of Elections (NEA) was issued in August 2017. The NEA started its work with preparations for the 2018 Presidential Elections, held on 26-28 March 2018. Incumbent President Al-Sisi won 97% of the valid votes. Rival candidate Moussa Mostafa Moussa got around 3% of the valid votes. Voter turnout was 41% of those eligible to vote, compared with the 47% in the 2014 elections, and voting took place in a context of numerous restrictions on freedom of association, assembly and expression, including on the media. Several candidates who had announced their intention to run faced intimidating or restrictive measures.

Substantial challenges as regards the rule of law, protection of human rights, fundamental freedoms and space for civil society continued during the reporting period. Since May 2017, over 470 news and media outlets, both local and international, have been blocked without court rulings. In May 2018, the Parliament gave preliminary approval to a new law Combating Information Technology Crimes, targeting cybercrime in particular, which might impact freedom of expression on social media and the internet. The number of arrests among media workers and journalists increased, with 20 journalists imprisoned according to the latest reports from the Committee to Protect Journalists in 2017¹². Moreover, Reporters Without Borders ranked Egypt 161st out of 180 countries¹³ for press freedom in 2017. Prominent human rights defenders continued to face restrictive measures, including travel bans and asset freezes, against the background of the ongoing so-called "Foreign funding case" (case 173). On 4 April 2018, the Court of Cassation annulled the convictions of 16 non-governmental organisations (NGOs) staff members based in the United States and Germany, ordering a retrial of the 2013 case regarding the alleged illegal receipt of foreign funding. By the end of the reporting period, the executive regulations of the new NGO law ratified by the President in May 2017 (law 70 of 2017), restricting the scope of registration and operation for non-governmental organisations, were not yet issued. Therefore, the legal framework for the functioning of NGOs continued to be the previous law 84, issued in 2002. Pressure has also increased on the LGBTI (Lesbian, Gay, Bisexual, Transgender and Intersex) community

¹² <https://cpj.org/about/CPJ.2017.Annual.Report.pdf>

¹³ https://rsf.org/sites/default/files/import_good_-_index_2018_pour_import.csv

since October 2017, following the raising of the rainbow flag at a concert in Cairo, which led to the arrest of 75 individuals from the LGBTI community. The arrested faced charges ranging from “debauchery” to “promoting sexual deviancy”.

A nationwide state of emergency was declared by the President for three months following the 9 April 2017 terrorist attacks on Coptic churches, and has been renewed every three months since then (latest extension in April 2018). The Egyptian emergency law grants the President the power to refer civilians to State Security Courts while the state of emergency is in place. On 8 and 12 October 2017, the Egyptian Prime Minister issued two decrees (2165/2017 and 2198/2017) requiring prosecutors to refer those charged under 10 laws to State Security Emergency Courts. These laws involve all acts prohibited by protest laws 107/2013 and 10/1914. Sentences imposed by State Security Emergency Courts are not subject to appeal and only require the President’s approval.

The end of 2017 and the beginning of 2018 were marked by a sharp increase in the number of executions. At least 26 death sentences were carried out, 25 of them following military court trials against civilians.

Other ongoing challenges in the field of human rights included reports of torture and ill-treatment in detention, enforced disappearances, mass trials and the use of long pre-trial detention – in some cases beyond the legally mandated two-year limit.

On corruption, Egypt ranked 117th out of 180 countries in Transparency International’s 2017 Corruption Perception Index. This was the third consecutive backslide in its score since 2014. A legal framework and an anti-corruption strategy for 2014-2018 to prevent and combat corruption are in place, with some improvements in 2017, such as the adoption of amendments to the Administrative Control Authority's (ACA) law (54/1964), and of the new investment and business licensing laws.

The EU-Egypt PPs foresee enhancing the capacity of state institutions for effective public sector reform, enhanced capacity of law enforcement institutions, development of the new Parliament's constitutional functions, as well as more efficient empowerment of local authorities in planning and delivering public services.

On 18 March 2018, the EU supported a High-Level Conference on "Boosting local development and decentralisation in Egypt" through the EU-funded programme "Support to Public Administration Reform and Local Development - PARLOD". This conference and other activities of the PARLOD enable Egypt and EU Member States to share their experience and to support Egypt in its efforts on local development and decentralisation.

b) Security and terrorism

Egypt continued to face several terrorist attacks. In October 2017, an attack on the Western Desert near the Giza Governorate left 16 police officers dead. In November, North Sinai witnessed the deadliest attack in Egypt's recent history, when 311 civilians were killed in the Al-Rawda mosque during Friday prayers. Following the bloody attack, President Al-Sisi instructed the Chief of Staff to restore security and stability in North Sinai; the Operation Sinai 2018 was launched on 9 February 2018. This operation falls within the framework of Egypt's comprehensive approach to combat terrorism and extremism. The operation continued at the end of the reporting period, with concerns expressed by civil society organisations about the humanitarian impact on the local population, including regarding

civilian infrastructure and the movement of goods and people. Efforts were conducted to secure public utilities and the inhabitants of the area where the operation is implemented in the North Sinai, providing them with financial support and subsidies, including the setting-up of a permanent committee led by the Governor of the Northern Sinai to develop and implement development programmes. The state of emergency, originally declared in April 2017 following the Palm Sunday bombing of two churches, was extended for another three months on 14 April 2018.

In July 2017, President Al-Sisi issued decree 255/2017 establishing the new National Council for Combating Terrorism. The decree stipulates that the role of the Council is to "mobilise the institutional and societal resources in order to curtail the causes of terrorism and treat its effects". The Council is chaired by the President and includes the Speaker of the Parliament, the Prime Minister, the head of Al-Azhar, and several ministers. It is tasked with formulating a "comprehensive national strategy" to combat terrorism.

The implementation of the activities under the jointly agreed EU-Egypt counterterrorism package is in progress, with particular attention given to the four areas Egypt has raised as priorities: training of prosecutors and digital evidence; Internet Referral Units; exchange of experiences with EU Agencies and EU Member States on counter terrorism; and strategic communications and financing of terrorism.

The EU and Egypt co-chaired the Global Counterterrorism Forum's East Africa Working Group and Plenary in Cairo on 18 April 2018.

Security and counterterrorism issues and cooperation were also discussed at the "Stability Cluster" in Cairo on 15 March 2018. The cluster regroups the Justice and Security Subcommittee and the Working Group on Migration, Consular and Social Affairs.

c) Managing migratory flows for mutual benefit

The number of irregular departures from Egypt to Europe plummeted in 2017 (79 for the whole of 2017 compared with 12 766 in 2016). This is mainly due to increased efforts by the Egyptian authorities to control their maritime borders. Egypt remains, however, a country of transit and destination, with a total of 221 675 refugees and asylum-seekers registered with UNHCR Egypt as of 31 January 2018. Slightly more than half of these people are from Syria. Other notable population groups are from Sudan, Ethiopia, Eritrea and South Sudan. The total number of UNHCR registrations is growing due to increasing levels of vulnerability and by new arrivals. In 2017, 50 228 people registered with UNHCR Egypt. Of those, 32 142 arrived in Egypt in the same year and 5 409 registered in November and December alone. This exceeded the historic peak of 45 502 new registrations in 2016, which itself represented an increase of 65% over the whole of 2015 (27 561 new registrations).

The EU-Egypt Migration Dialogue in the framework of the EU-Egypt PPs was formally launched by the EU Commissioner for Migration, Home Affairs and Citizenship, Dimitris Avramopoulos, and the Minister of Foreign Affairs of Egypt, Sameh Shoukry, on 16 December 2017 in Cairo. On the following day, a large number of institutional bodies, services and agencies from both sides attended a Senior Officials Meeting. The Dialogue covers all migration-related issues, from the fight against smuggling and trafficking to the promotion of legal channels of migration and mobility, and from the prevention of irregular migration to the protection of asylum seekers and refugees, in a comprehensive and balanced approach. Its aim is to contribute to identifying joint EU-Egypt initiatives and projects both in

the short and longer term. It embeds the issue of migration within the overall bilateral relationship between Egypt and the European Union, including enhanced cooperation with EU Agencies, taking into account the existing processes on migration, including the Khartoum Process and the follow-up to the November 2015 Valletta Summit through the implementation of the Summit's Political Declaration and Action Plan. The "Stability Cluster" meeting in Cairo in March 2018 followed up on the December 2017 discussions.

On the occasion of Commissioner Hahn's visit to Egypt on 29-30 October 2017, a EUR 60 million programme under the EU Trust Fund for Africa¹⁴ was signed. The programme, designed in close collaboration with the Egyptian authorities, aims to enhance Egypt's migration management, address the root causes of irregular migration into and from the country, and support Egyptian communities hosting migrants. The financing agreement for this first EU Trust Fund cooperation programme of EUR 60 million in Egypt is pending ratification by the Egyptian House of Representatives. Also under the EU Trust Fund, a project on Labour Mobility involving Egypt and other non-EU countries is being developed, with the active involvement of the German Development Agency (GIZ), as well as the International Organisation for Migration (IOM) and the International Labour Organisation (ILO). The Egyptian authorities have also been actively engaged at a more technical level, including by participating in a Workshop on Labour Migration and Visa Facilitation organised by the European Commission under the Mobility Partnership Facility. Potential cooperation with the European Border and Coast Guard Agency (EBCGA) is also being explored, with bilateral visits paid by both the Egyptian officials visiting Warsaw and the EBCGA coming to Cairo. Discussions on return were held in Cairo on 16 April 2018 with representatives from a number of Member States' diplomatic representations, the Egyptian Ministry of Foreign Affairs, the Ministry of the Interior and the National Security Agency to identify bottlenecks and improve processes.

¹⁴ The "EU Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa" was established under Article 187 of the Financial Regulation by a Decision of the Commission on 20/10/2015. The overall objective and purpose of this Trust Fund is to address the crises in the regions Sahel and the Lake Chad, the Horn of Africa, and the North of Africa.

https://ec.europa.eu/europeaid/sites/devco/files/commission-decision-2015-7293-20151020_en.pdf