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**Accompanying the
Communication from the Commission to the Council and the European Parliament**

‘Implementation of the European Neighbourhood Policy in 2007’

Progress Report Egypt

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1. BACKGROUND

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. The Association Agreement with Egypt, which entered into force in June 2004, sets out in more detail the specific areas in which the objectives of the Euro-Mediterranean Partnership 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.

Institutional cooperation has enabled both sides to progress with the implementation of the Association Agreement and more recently the Action Plan. In addition to the existing Association Council and Association Committee, eight sub-committees and one working group were established in March 2007, of which four sub-committees and one working group have been convened since June 2007¹ as well as the second economic dialogue. The European Commission is looking forward to the convening of the four remaining bodies, including the sub-committee on political matters: human rights and democracy, international and regional issues, which has not yet taken place. No meeting of the Association Committee has yet been held since the entry into force of the Association Agreement.

This document reports on progress made on the implementation of the EU – Egypt Action Plan between the adoption and 31 December 2007, 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.

On the whole, Egypt has shown commitment to its Action Plan. It has moved cautiously in the early stages while the administration has been developing a greater understanding of and confidence in the institutional and policy mechanisms. An inter-ministerial network of Action Plan correspondents has been established under the overall co-ordination of the Ministry of Foreign Affairs. The contacts between civil servants that the Action Plan has facilitated, have allowed greater awareness of policy developments in the EU and in Egypt.

In view of the short reporting period considered in this report and the fact that a number of sub-committees have not yet been held, no overall assessment of progress in Action Plan implementation is provided here.

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, consolidating the independent and effective administration of justice and improving prison conditions.

¹ Industry, trade, services and investment; Transport, environment and energy; Information society and audiovisual, research and innovation, education and culture; Justice and security; Working group on migration, social and consular affairs

Following the President's pledges of political reform in 2005, a package of amendments to the 1971 Constitution was adopted in April 2007 after a referendum. This referendum took place in March 2007, only a few days after parliamentary approval, thus leaving little time for public debate. The constitutional amendments covered a wide range of issues including important changes to the electoral process. They also paved the way for the promised ending of the state of emergency, which has been in place since 1981, before the end of the current legislative session in July 2008 by defining a new institutional framework for combating terrorism. These provisions have raised concerns regarding the option to resort to non-civilian courts in anti-terror cases.

The 2007 constitutional reforms have also given new powers to the Parliament. In particular, the People's Assembly has increased control over the budget and a new power to withdraw confidence from the Prime Minister. The reform also gives the President power to dissolve Parliament at a time of necessity. The constitutional amendments further call for a new election law regarding the eligibility of candidates of political parties and independent candidates to participate in elections. The new electoral law may adopt a partial lists system.

The new electoral law based on the amended constitution removes judges from the polling stations where votes are cast (though they still are able to participate in the management of voter lists and counting of votes) and transfers responsibility for the supervision of the **electoral process** to a new electoral commission that has considerable authority over the counting of votes and the declaration of results. Ambiguities remain concerning the administrative structure of the newly established Electoral Commission as well as the mandate of its staff. The Electoral Commission publishes its reports in the press and it is possible to submit complaints through the Cairo Court of Appeal (the commission is chaired by the president of that Court).

Mid-term **elections** in June 2007 of the *Shura* Council, Egypt's upper chamber of Parliament, were the first elections after the constitutional amendments entered into force. A total of 88 seats were elected while turnout was low. An EU Presidency statement called on Egypt to investigate allegations of irregularities and acts of violence. There is no indication that such an investigation has so far taken place.

A National Committee on Transparency and Integrity was established in 2007 to support efforts to combat **corruption** and enhance transparency and accountability in public affairs. It involves both administrative and civil society representatives and acts to support the implementation of the UN Convention on Anti-Corruption. It is to be considered as a first attempt to devise a common strategy and coordinate the various government agencies involved in anti-corruption activities, including the administrative control authority and the illegitimate earnings authority, with a view to adopting a comprehensive national strategy to combat corruption. In April 2007 a workshop was held with OECD experts on the simplification of procedures to reduce the incidence of corruption.

The **independence of the judiciary** is enshrined in the Constitution but this principle 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. The 2007 constitutional amendments abolished the Socialist Public Prosecutor, a state organ in charge of investigating a variety of political and corruption cases. The amendments allow the President to refer terrorist cases to any court. In November 2007, the government

expressed the commitment to introduce amendments to the law of judicial authority to enhance judicial independence.

The EU is currently providing capacity building and training in human rights law to judges, state prosecutors and law enforcement officers. Egyptian judges participated in training in the framework of the Euro-Med Justice programme and there are plans to establish a judicial academy to enhance national judicial training capacity. The improvement of training to implement the law at all levels remains a key priority.

Regarding **prison conditions** and rights of prisoners and detainees in 2007, international human rights observers were not given access to prisons and detention centres. Officials from the national council for human rights were the only domestic human rights group allowed to visit detention facilities. In its voluntary pledges to the UN Human Rights Council, Egypt has committed to "adopt legislative amendments in the area of pre-trial detention".

Human rights and fundamental freedoms

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

National debate and a certain degree of arbitration is provided by the National Council for **Human Rights** whose board is composed of political figures, academics, lawyers, civil servants and civil society representatives. The council recommended policy changes to the government on issues like the manner of conducting elections and referenda, the trial and conviction of newspaper journalists, and the practice of torture by police and security officers. It is the principal address available to citizens to lodge complaints of a general human rights or administrative nature.

A significant step was taken before the adoption of the Action Plan, in December 2006, to formalize human rights considerations in government activity through the adoption by the National Council for Human Rights of the **national plan of action for the promotion and protection of human rights in Egypt**. The national plan aims at ensuring a comprehensive approach to human rights issues, ministry by ministry, in such areas as legislation, institutional and protection mechanisms, and the promotion of a culture of human rights through education, capacity building and training. In January 2007, the Ministry of Economic Development announced that the plan was to be incorporated in the five year economic and social development plan (2007-2012).

Egypt's election to the **UN Human Rights Council** in May 2007 came in the wake of a government pledge to promote human rights at the international level, while also adhering to its undertakings on strengthening human rights in the domestic context, promoting the role of NGOs, and preserving the freedom of the press and the independence of the judiciary.

Egypt is party to a number of international and regional human rights instruments. It made further progress by acceding to the Optional Protocol on the Involvement of Children in Armed Conflict (February 2007) and signing the Convention of Rights of Persons with Disabilities (April 2007). Egypt has not ratified optional protocols under the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW), 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 CEDAW. The Rome Statute of the International Criminal Court was signed by Egypt in 2000, but it has not been ratified.

The death penalty may be imposed for the most serious crimes as well as emergency law related cases, e.g. involving terrorism. Egypt did not support the worldwide moratorium on the **death penalty** introduced at the UN General Assembly in December 2007, arguing that it was an infringement of national sovereignty and a nation's right to set criminal punishments.

Prison sentences handed down by the courts to a number of police officers in 2007 for the **torture** of detainees showed a certain determination by the authorities to tackle the reportedly widespread practice of torture and ill treatment, mainly in police stations.

Regarding **freedom of expression**, Egypt has a variety of media outlets, which include newspapers, TV channels, satellite stations as well as access to the internet. The increased diversity of media in recent years is a positive development. The past year has witnessed a lively debate over prosecutions against independent journalists and internet bloggers, which have in some cases resulted in prison sentences and heavy fines. President Mubarak had previously raised expectations that journalists would no longer face prison sentences.

Egypt still maintains some reservations to the Convention on the Elimination of all forms of Discrimination Against **Women** (CEDAW) including its reservation regarding the right of women to transmit their nationality to their children irrespective of the father's nationality as well as a reservation which conditions the equality of women in matters of marriage and divorce on compatibility with Islamic law. The National Council for Childhood and Motherhood (NCCM) has led public campaigns, backed by the authorities, to make female genital mutilation illegal, to promote women's rights to divorce as well as a campaign against domestic violence. Female genital mutilation was officially prohibited in June 2007. Although Egypt retains a reservation, a law from 2004 acknowledged the right of Egyptian women married to foreigners to transmit their nationality to their children.

In 2006 the NCCM proposed, after intensive consultation with civil society and government ministries, a number of amendments to the **child law** of 1996, in line with the Convention on the Rights of the Child. These amendments aim, inter alia, at raising the minimum age of children's criminal responsibility from 7 to 12 years, raising the marriage age for girls from 16 to 18 years, criminalising the exploitation of children, prohibiting the worst forms of child labour and prohibiting all forms of violence against children. These amendments have not been adopted by Parliament during the reporting period.

The legal and administrative framework for **civil society** cooperation established by the 2002 law on non-governmental organisations and foundations imposes certain legal, administrative and security restrictions on the activities of civil society organization in terms of licensing, funding and organizational autonomy. These regulations have hampered the activities of some NGOs within the reporting period. Nonetheless, civil society organizations remain active in advocating reform and delivering services in all areas of economic and social life. In 2007 the National Council for Human Rights made a recommendation to lift restrictions on civil society organisations.

As regards **freedom of religion**, after the reporting period, in January 2008, Cairo's Supreme Administrative Court issued a ruling in favour of the Egyptian Baha'i community, allowing them to obtain identification documents with no mention of religious affiliation.

As regards **fundamental social rights and core labour standards**, Egypt has ratified the 8 conventions of the International Labour Organisation 1998 Declaration on Fundamental Principles and Rights at Work (forced labour, freedom of association, collective bargaining, child labour, discrimination) but their effective implementation is not yet ensured. The ILO Committee of experts on the Application of Standards has made negative comments on some provisions regarding trade union rights, the right to strike, the rights of women in the workplace and child labour (*see also section on social dialogue*).

Cooperation on foreign and security policy

During 2007 the Arab Peace Initiative was relaunched and the EU signalled support for this as a major step towards a comprehensive solution to the MEPP. Egypt has played an important role via its participation in the Arab League's follow up Committee, which met with EU Foreign Ministers in May 2007 and several times with the Quartet Principals in the reporting period. Egypt, along with other Arab and European partners, attended the Annapolis meeting in November 2007.

Egypt and the EU 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 on standby, however Egypt and EU are agreed on the desirability of redeployment as soon as conditions allow.

Combating terrorism

The government is committed to the **fight against terrorism** and to cooperation with the EU on this issue. The first ever sub-committee on justice and security in October 2007 allowed for an exchange of views, inter alia, on the issue of recruitment and radicalisation. At that meeting, Egypt underlined its interest to cooperate further with the EU on counter-terrorism with a particular focus on the internet as a forum for radicalization and recruitment. The government has recently launched two initiatives in the fight against terrorism, focusing on the internet as an arena for terrorist groups and their recruitment activities and to combat incitement in line with the UN 2006 global strategy to fight terrorism. In December 2007, a ministerial committee was well advanced in preparing an anti-terrorism law to enter into force in time for the ending of the state of emergency set before the end of the current legislative session in July 2008.

Non-Proliferation of WMD

Egypt actively pursued a regional policy of **disarmament and non-proliferation** of weapons of mass destruction, in particular, a Middle East free of nuclear weapons. The government criticised EU Member States who abstained from a vote in September 2007 on an IAEA resolution calling on Middle East countries to renounce nuclear weapons. Egypt supported international conventions on nuclear controls, and advocated the peaceful use of nuclear energy, under NPT conditions.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning of the market economy

After a number of years of hesitant **economic growth**, the condition of the Egyptian economy improved in 2007. GDP growth accelerated to 7.1 %, fuelled by investment and exports of goods and services. Annual **inflation** increased to double digits because of increased demand, increased wage costs, higher administered utility prices and higher food prices. Despite monetary tightening, the Central Bank of Egypt did not succeed in preventing the real interest rates from becoming negative. This rather loose monetary policy stance was coupled with loose public spending.

Nevertheless, Egypt improved its fiscal stance. The general government deficit was reduced significantly in the fiscal year 2007 and the general **government debt** is on a steeply declining path. The government has committed itself to further fiscal consolidation, even to a gradual reduction of the deficit to 3 % of GDP by 2011. These reforms are necessary to improve 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 expenditures remains a priority. This will require gradually phasing out the energy and food subsidies and replacing them by better targeted income support.

Financial sector reform, a key aspect of the reform agenda, continued in 2007 with in particular the privatisation of a major state bank. The leading stock market index gained more than 50 % in 2007 despite the turmoil in international financial markets. Regarding the **business environment**, a number of substantial steps were taken. Egypt reduced the cost of registering property from 3 % of the property value to a low fixed fee. New one-stop shops were launched for traders at the ports, cutting the time to import by seven days and the time to export by five. Egypt also reduced the cost of dealing with licenses.

Due to the short period of implementation, there is not yet anything to report on **agriculture** and **fisheries** nor on **mineral** resources.

Employment and social affairs

According to the 2007 UNDP Human Development Indicators, Egypt is ranked 112th out of 177 countries. In 2007, Egypt adopted a national five-year plan for socio-economic development, including **poverty reduction**, aimed at ensuring that the effects of economic growth are well reflected upon the citizens' daily life. The new strategy mainly aims at empowering marginalised groups, improving social benefits and the quality and accessibility of services.

As regards **social dialogue**, limitations remain in practice with respect to freedom of association as all trade unions are required to belong to the Egyptian Trade Union Federation, which is dominated by the ruling party. Egypt has seen an increased number of strikes in the public sector in 2007, yet real opportunities for workers to voice their points of view have been limited. Membership of the official union is mandatory for employees in the public sector. The Centre for Trade Union and Worker Services, a high profile labour rights group, was shut down by the authorities in April 2007 and its director was sentenced in October 2007

to one year in prison for defamation. Outside the reporting period, in February 2008, the Cairo Court of Appeal quashed the sentence. Tripartite social dialogue is well developed, which is not yet the case with bipartite dialogue.

The fight against **unemployment** is one of the priority objectives of the government. The rate of unemployment remained high despite the acceleration in GDP-growth since 2003, but fell according to the official statistics below 10 % in mid 2007. The highest unemployment rate brackets are between 15 and 25 years. With approximately 600 000 young workers entering the labour market each year, job creation remains a fundamental priority. The Ministry of Manpower and Migration has elaborated a comprehensive employment strategy based on three priority axes: diagnosis of the current situation, identification of obstacles, financial resources to be mobilised. Further reforms in the business sector are necessary for the creation of new and durable jobs as well as poverty reduction.

Egypt has elaborated various other strategic documents pertaining to social issues. However, many of these strategies have yet to be implemented. Women are particularly exposed to hardship and insecurity since they are generally employed in poorly-remunerated occupations or in the informal economy.

Egypt is working with the World Bank on a new sustainable **pension** system. The new law intends to provide a more comprehensive and unified social security system. The current schemes would be progressively phased out on a 50-year period. Due to the demographic pressure and the longer life expectancy, pension reform remains a priority.

Women's participation in political, economic and social life was slightly enhanced. The 2007 constitutional amendments allow effective political representation of women in the People's Assembly and Shura Assembly. However, female participation in the legislature remains very low. Only two women are present in the cabinet of ministers compared to 32 men. Through the efforts of the EU-supported National Council for Women's Ombudsperson's office, greater awareness prevails of the need for wider participation of women in political and public life (31 women judges were appointed to the court of first instance in 2007, for the first time), for ending discrimination against women, and for improved access of women to education and health care. Women remain under-represented in both public and private sectors. The creation of equal opportunity units in government ministries is a step toward redressing the imbalance (*see also section 2*).

Sustainable development principles are integrated in the National Urban Development Strategy for Egypt, up to the year 2017, as well as in various urban and regional strategies and policies.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Trade relations

Egypt's exports to the EU have risen consistently since the entry into force of the Association Agreement in 2004, reaching € 7.5 billion in 2006. Total **trade** volume with the EU was € 16.3 billion, placing the EU as Egypt's major trading partner (with 40 % total volume). Negotiations with the EU on trade in agricultural, processed agricultural and fishery products are proceeding. Egypt undertook a major tariff reform in February 2007 by significantly

reducing its import custom duties on a range of manufactured products and raw materials, bringing the weighted average imports tariff to 7 %. Under the terms of Article 18 of the Association Agreement, these reduced tariffs will be the basis on which tariff reductions of the Association Agreement are calculated, thereby ensuring that there is no erosion of preferences for EU exports to Egypt.

Tariff dismantlement is proceeding in accordance with the Association Agreement, though a unilateral export tax on rice imposed by Egypt in 2007 remains subject of discussion. Regionally, in 2007, Egypt concluded a free trade agreement with the European Free Trade Association, (EFTA - Norway, Switzerland, Iceland, Liechtenstein) and a free trade agreement with Turkey which resulted in a surge in bilateral trade and some major Turkish investments in the textile sector. This FTA includes a Pan-Euromed protocol on rules of origin providing for diagonal cumulation among the countries concerned.

Concerning the implementation of the Agadir Agreement, the procedures for the notification of the implementation of the cumulation system in the framework of the agreement have been concluded, for the implementation of the Pan-Euromed system of cumulation of origin.

Concerning **customs**, Egypt now applies the Harmonised System (HS) 2007. Egypt has moved forward on the modernisation of its Customs Administration, with EU support and in line with ENP Action Plan undertakings, in risk-based customs control, the definition of standards for certifying operators, training (including in valuation and origin), and computerisation.

On **free movement of goods and technical regulations**, Egypt confirmed in 2007 its commitment to negotiate an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and selected the priority sectors to be included therein. Egypt continued with the transposition of relevant European standards in the priority sectors, as well as on the areas of legislative approximation on essential safety requirements, accreditation, conformity assessment and market surveillance. The Egyptian Organisation for Standardisation (EOS) is working to align the Egyptian system to that of EU, in terms of drafting technical regulations which regulate essential health and safety requirements. Through the five working groups which were established by the EOS, a legislative gap analysis was carried out and a work programme towards an ACAA is being prepared. Egypt is establishing a national quality institute as a separate body to cover all activities related to promotion of quality amongst Egyptian manufacturers. All activities will be carried out under the national quality plan which is operated by the IMC (Industrial Modernisation Centre). Significant work remains to be done to set up the related implementing infrastructure, the compliant institutions and on voluntary standardisation, accreditation, metrology, conformity assessment procedures and a post-market surveillance system. As of January 2008 Egypt is an affiliate member of the European standards body CEN.

Regarding **sanitary and phyto-sanitary** issues, the European Commission acknowledged the reduced interception record regarding potato exports to the EU and the Egyptian controls. The European Commission therefore allowed potato imports for the 2007/2008 season. As aflatoxine (a contaminant) repeatedly was found in peanuts imported from Egypt, Member States carry out a strengthened testing regime and the European Commission plans to evaluate the matter in 2008. Egypt is preparing a law on food safety and started to work towards the establishment of a single food safety body. Avian influenza remains, since the 2006 outbreak, a serious challenge in Egypt, having caused human fatalities. In this context, Egypt adopted

an integrated plan for avian and human influenza 2007/2008. Egypt participated in workshops under the European Commission's "Better training for safer food" programme.

As regards **establishment and company law**, the current company law legislation is being reviewed to achieve convergence with key principles of international and EU rules, including those regarding the adoption of a code of corporate governance. In order to facilitate the setting up of a company, the authorities reduced the minimum capital required to start a business from EGP 50 000 to EGP 1 000 and halved the time and cost of start-up operations. In May 2007, a decision was issued regarding the code of ethics of accountants and auditors registered at the capital markets authority. This was part of the authority's strategic plan to enforce financial disclosure and protect shareholders' rights through improving the role of auditors, implementing auditing standards and complying with the best accounting standards.

In October 2007 Egypt agreed to start bilateral negotiations on the liberalisation of **services** and establishment, in early 2008. On financial services, Egypt has continued progress with the implementation of the government financial sector reform plan launched in 2004 for the modernisation of the financial sector to be in line with the international best practices. In 2007, the Central Bank of Egypt (CBE) worked intensely to deepen and develop the concept of risk-based supervision and to assess the Bank's ability to identify and manage risk. It also enhanced the regulatory framework by taking stock of and being in line with international regulations and Basel II principles for effective banking supervision. With regard to securities markets, amendments to the capital market law's executive regulations were approved in June 2007. These revise the legal, regulatory and monitoring framework for setting up and managing investment funds. Reforms are set to include an upgrade of monitoring mechanisms for the various types of funds, to allow real estate funds and holding funds for the first time. Attention has recently been given to the development and liberalisation of the insurance sector. Extensive restructuring measures are being provided to upgrade the Egyptian Insurance Supervisory Authority's operations from compliance based to risk based supervision.

Other key areas

In order to reform the fiscal system and to improve business environment, in February 2007, the government submitted to Parliament amendments to the property **tax** law, reducing non-agricultural real estate tax rates, while repealing exemptions, thus making all property potentially taxable. The VAT will be unified, with final rates likely higher than present sales tax rates. The legislation will do away with most exemptions. During 2007, the Ministry of Finance continued its extensive public awareness campaign for its 2005 income tax law, aiming at eliminating the perception of a corrupt and irrational tax-collection system.

In the area of **competition policy**, the Egyptian Competition Authority at the Ministry of Industry and Trade has continued to pursue cases of violation of competition rules. During 2007, a total of 17 cases from Egypt's main industrial sectors were investigated and the decision on the first Egyptian anti-cartel case, concerning six producers of cement, was published. Work remains to be done to ensure full independence of the Competition Authority. With regard to state aid, no progress is to be reported.

The Ministry of Finance has elaborated a procurement action plan setting guidelines for tendering entities. The Ministry fully supervises the activities of the Public Authority for Governmental Services. The aims of the reform of the legal framework are to consolidate and clarify the law governing government procurement, to maximise transparency at each stage of

the procurement process, to reduce administrative fees and to reduce the public procurement time. A project to manage e-procurement and e-commerce for the Egyptian government's departments and private enterprises was started in February 2007. Egypt is not a signatory of the WTO Agreement on Government Procurement (GPA).

As regards **intellectual property rights**, Egypt has ratified neither the Madrid protocol relating to the Madrid Agreement Concerning the International Registration of Marks nor the Treaty on the International Registration of Audiovisual Works. Further efforts are needed to ensure full implementation of the World Intellectual Property Organisation (WIPO) treaties. Weak implementation of IPR legislation and the lack of deterrent enforcement by courts remain an area of concern. The backlog of pending patent applications, the lack of protection against unfair commercial use for data generated to obtain marketing approval, and the lack of an effective coordination system between Egyptian health and patent authorities to prevent the issuance of marketing approvals for patent-infringing pharmaceutical products should be addressed as a matter of priority. The European Patent Office has supported the digitalisation of the patent documentation through large scanning programmes and the delivery of specific hardware and software. Circulation – including trans-shipment of counterfeit and pirated goods through Egypt - is still widespread. The strengthening of overall administrative capacity would enable a better-targeted approach towards piracy and ensure effective implementation of the law.

The government, with EU support, has elaborated a new law on statistics, determining information on **statistics**. It is also taking steps to develop a policy for **statistical information** in Egypt, to support the adjustment of statistical law and to support the institutional capacity of the Central Agency for Public Mobilization and Statistics (CAPMAS). Different training activities in the framework of the MEDSTAT II programme are in process with a view to increasing the quality and harmonisation of data in the production of statistics. Furthermore, Egypt together with Jordan, the Palestinian Authority and Israel decided to form a common working group in order to tackle challenges related to the production of trade statistics (mirror exercises etc.).

On **enterprise policy**, Egypt continued the implementation of the Euro-Mediterranean Charter for Enterprise and set up an inter-ministerial structure involving various stakeholders to steer and monitor the process. In this context, a meeting involving all stakeholders, public and private, was organised with the European Commission before the reporting period, in December 2006. Egypt has agreed to participate, together with the other Mediterranean partner countries, in a pilot project aiming at assessing the progress achieved in the ten sectors covered by the Charter. This project is coordinated by the European Commission in cooperation with the OECD, the European Training Foundation and the European Investment Bank. In October 2007, the Minister of Investment and the Cairo Stock Exchange (CASE) launched a new market for medium and small enterprises (NILEX). The new market provides medium and small companies with long term access to capital to encourage business growth and increased competitiveness. The exchange will allow companies that do not meet the minimum paid-up capital to have access to finance and raise capital outside traditional lending institutions. The new venture will encourage small companies to adapt to the criteria of corporate governance, transparency and disclosure, which is expected to positively impact management performance and results.

With regard to public finance management, the classification of the budget is being modernized and a single treasury account is progressively being put in place in order to improve expenditure management and consolidate public accounts. With international

technical assistance, initial steps were taken to establish internal audit guidelines and accountability systems within line ministries.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Egypt has bilateral **migration** agreements in place including provisions on the economic and social rights of migrants. No major developments were noted in the reporting period.

With regard to the fight against **organised crime**, Egypt is a Party to the UN Convention against Trans-National Organised Crime adhering to two additional protocols, on the Prevention of Trafficking of Persons especially Women and Children and on the smuggling of migrants. It has however not yet adhered to the Third Protocol on the trafficking of firearms. Egypt established a National Committee on the Trafficking of Persons with civil society participation in July 2007, which has a consultative role. Its main priority is the preparation of a national action plan, which includes anti-trafficking legislation, measures and programmes to assist victims (a hotline was created), increase media awareness and the preparation of a central data base

On the **fight against drugs**, Egypt is party to the three major international drug control conventions currently in force: the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the 1961 Single Convention on Narcotic Drugs and the 1971 Convention on Psychotropic Substances. Egypt's anti-drugs efforts are directed at both preventive and protective measures including judicial referral of addicts to rehabilitation. The Anti-Narcotics General Authority (ANGA) leads the fight against drugs through coordination with all relevant state agencies and civil society groups. Training programmes on rehabilitation and treatment of addicts including those for prison staff, are ongoing. Legislation in force is in compliance with Egypt's international obligations under UN conventions.

With regard to **money laundering**, Egypt's participates in the Middle East-North Africa Financial Action Task Force (MENAFATF). An anti-money laundering unit was established by presidential decree after the law on combating money laundering was passed in 2002. It has several functions among those to examine reports about suspected transactions; to coordinate with public prosecutors surveillance bodies and other agencies.

The Central Bank Law 2003 enhances the role of the Egyptian Central Bank in the fight against money laundering and other financial crimes. The law established the Banking Institute, a body responsible for capacity building of the financial sector and combating money laundering. Besides the Banking Institute, the Judicial Training Institute (eventually to be upgraded to an Academy) is another important training body for Egyptian officials on money laundering, and financial and economic crimes. Existing legislation criminalizes all forms of money laundering including financing terrorism and enables executive monitoring of suspicious transactions through the Central Bank. Capacity building in respect of the financial sector and the judiciary to combat money laundering and other economic crimes remains a priority.

Within the Egyptian Ministry of Justice, four specialised committees deal with international **cooperation** requests in legal matters. 1) The National Committee for international cooperation in the field of combating terrorism; 2) the International Cooperation Committee for custody of children conflicts who were born in mixed marriages; 3) the Committee for

reviewing requests to transfer foreigners sentenced in drug cases and 4) the National Committee for international humanitarian law respectively on combating terrorism; custody of children; drug-related crimes and international humanitarian law.

Egypt has concluded 25 judicial cooperation agreements with EU Member States.

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

Egypt has formulated a revised national strategy for the **transport** sector, the “Multimodal transport and logistics system of the Eastern Mediterranean region and master plan in the Arab Republic of Egypt”, while all modes of transport are being reformed in parallel. A unified transport law is under development. As regards infrastructure investments, Egypt is planning to make greater recourse to private public partnership funding.

In the road sector, safety remains an issue of major concern. Egypt is developing a comprehensive action plan on road safety that also identifies the various actors and the concrete steps as well as time-lines that would be needed in order to implement such a plan.

Priority was given to rail transport and the restructuring of the Egyptian National Railways. Egypt has plans to separate the railway regulator from the operations with the overarching medium goal to improve the safety record of the Egyptian National Railways. Egypt has created a safety regulator in the Ministry of Transport and is in the process of setting up an internal safety oversight system inside the Egyptian National Railways (starting with the setting up of a feedback system, weekly examination of data as well as the monitoring and training of drivers).

Egypt considers the development of inland waterway transport a major priority, but the policy is at a very initial stage of development. Egypt is currently developing a comprehensive master plan (including capacity building of the river authority and review of the regulatory framework as well as review of the locks system, dredging issues, choice of terminals etc.)

The European Commission and the Egyptian authorities have started to negotiate a horizontal air transport agreement. Although Egypt has replaced the traditional nationality restrictions with a Community designation clause in some bilateral air services agreements with EU Member States, the majority of bilateral agreements is still not in conformity with Community law. The Civil Aviation Regulatory Unit is being strengthened and the privatisation of airport management is underway. A major focus is put on safety standards and the development of regional connections (a new Egypt Air subsidiary has been launched). The national carrier is being restructured and is developing a new strategy. The national airlines are encouraged to strengthen cooperation (conclusion of alliances, code sharing, and capacity and reservation arrangements).

Egypt is approximating its national legislation on maritime transport to the EU legislation and international conventions. Maritime safety is clearly an issue being addressed in order to remove the Egyptian flag from the black list of the Paris Memorandum of Understanding on port state control. Egypt is working on achieving a port state control figure of 20 % and is cooperating with a limited number of well-recognised classification societies. Egypt is in the process of establishing an accident investigation bureau. Substantial investments in port upgrading are taking place.

Egypt, a strategic **energy** partner for the EU, is an important oil and gas producer and exporter as well as a key transit country for world markets. It is the sixth largest gas supplier to the EU.

Egypt and the EU substantially enhanced energy cooperation including through the preparation of a Memorandum of Understanding on energy, which should be signed soon. At regional level, energy ministers strengthened Euro-Mediterranean energy cooperation and endorsed a priority action plan for 2008-2013. The plan includes, inter alia, a list of priority interconnection and infrastructure projects of common interest. Egypt hosted the EU-Africa-Middle East Ministerial Energy Conference of Sharm-el-Sheikh in November 2007, which identified the common interest to promote clean energy technologies and to develop a green energy market.

Egypt initiated the development of an energy strategy until 2030. Egypt is studying possibilities to explore oil shale reserves. President Mubarak announced plans to build several nuclear power plants. In this context, it is key that a high level of safety and security of nuclear installations is ensured 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.

Egypt sustained participation in the EC-supported Euro-Mashraq gas centre in Damascus, which is facilitating the development of a Euro-Mashraq natural gas market. It cooperated, as a key partner, on the further construction of the Arab Gas pipeline, which increasingly should enhance the region's and (in the future) the EU's energy security. The country further developed domestic gas pipelines and reduced network losses. The export gas pipe to Israel is being completed. Egypt increased gas prices for industry, which should reach market levels in the next years. Egypt continued to study possibilities to establish an oil/gas regulator, in addition to the electricity regulator.

During 2007, Egypt continued electricity sector reform and assessed possibilities for a gradual market opening. Independent power producers represent more than 10 % of production. Rural electrification progressed and more than 99 % of the population has now network access. Egypt sustained work towards electricity interconnections with Mashraq and Maghreb countries, which advanced the future Euro-Mediterranean electricity ring. Egypt continued to give energy efficiency and more use of renewable energy sources priority. In April 2007, the Supreme Council for Energy presented a long-term plan to meet 20 % of electricity demand by renewable energy by 2020. Major wind farms are under construction. Egypt plans to host a centre for renewable energy and energy efficiency for the benefit of the region to be established with EU and bilateral assistance. The country continued the development of labelling for minimum efficiency standards for certain appliances (air-conditioning, refrigerators, washing machines), which are similar to the EU scheme.

Key **environment** issues concern threats related to climate change, air quality, water quality, waste management, marine and coastal pollution, nature protection and desertification. Egypt made progress on climate change. A second national communication and a greenhouse gas inventory are under preparation. Altogether 36 Clean Development Mechanism (CDM) projects have been prepared, of which three have so far been registered at the UN level. Egypt participates in the Euro-Mediterranean Horizon 2020 Initiative on environmental measures in the Mediterranean area, including the identification of key environment infrastructure issues

in the fields of municipal waste, urban waste water and industrial pollution as well as appropriate financing sources and mechanisms. Six of the 44 so far identified projects with an apparent chance to be bankable are Egyptian². All interested parties still need to agree on how to prioritise, prepare and finance pollution reduction projects in these sites. Egypt also participates in activities under the EU Water Initiative, including a national policy dialogue. Egypt will develop a policy dialogue on the elaboration of a national financing strategy for water supply and sanitation, supported through an EU Water Sector Reform budget support operation. A long term assessment of future water resources “Vision of 2050” is being carried out.

The implementation of the second phase (2007-2012) of the national environment action plan (2002-2012) took off. A national master plan for water and wastewater, a rural sanitation strategy, a national solid waste strategy as well as a coastal zone management strategy are under preparation. Work is ongoing to implement existing strategies and plans, but continued attention is required. Overall, framework legislation and sectoral legislation are in place in many areas, but require further development. An assessment of regulatory issues is being prepared. While administrative structures on environment are in place, a major challenge is to strengthen administrative implementation capacity at all levels of the country, including coordination between authorities. Monitoring as well as enforcement require special attention. Egypt publishes environmental information and carries out some activities to inform and involve the public. However, public consultation is not mandatory for all environmental impact assessment studies. Egypt considers that there is a need to develop a national strategy on environmental communication.

Egypt has ratified relevant international and regional conventions and protocols, except the amendments to the Land-Based Sources Protocol to the Barcelona Convention. Egypt has not signed the New Emergency Protocol to the Barcelona Convention. Egypt takes part in the African Ministers Conference on the Environment and the Mediterranean Action Plan. The European Commission and Egypt have enhanced cooperation and information exchange, including on water, assessment of regulatory issues as well as preparation of a master plan on legislation and institutional issues. Other topics, such as hazardous substances, waste management and water (including water balances and costing), have been identified for possible closer cooperation.

In the field of the **information society**, Egypt will strengthen the capacity of the National Telecommunication Regulatory Authority (NRTA) through a twinning project with a regulator from an EU Member State. The project, which was prepared in 2007, will address organisational issues of this authority and the further development of the regulatory framework, e.g. in the fields of universal service, carrier selection and number portability. Egypt has adopted a new strategy for the information society sector covering the years 2007-2010, focusing on: developing a state of the art competitive telecommunications infrastructure and an ICT industry enhancing the framework governing the use of ICT Networks and Services; enabling society to absorb the various e-initiatives, establish a learning community as well as develop skills, human resources and innovation. Egypt has defined a set of strategic objectives in order to promote R&D in the ICT sector, focusing in particular on experiences gained through the establishment of a virtual centre of excellence in data mining and

² wastewater or water reuse: Abou Rawash, Gabal El Asfer, Heluan, Alexandria King Maryut; waste: Alexandria governorate

computer modelling by integrating already established data-mining activities in universities, research institutions, local and multinational companies and private and public organisations across Egypt. Egypt has formulated the policy to increase broadband penetration by promoting higher speeds of broadband infrastructure at lower prices in order to stimulate the development of the e-content market. The government is looking into possibilities of granting a second fixed line operator license during the year 2008.

Regarding the **audiovisual sector**, the establishment of a new regulatory authority body for audio & video broadcasting is under preparation. Egypt plans to reform the Egyptian Radio and Television Union, ERTU, in order to enable it to better deal with the great expansion of media activities. One of the key aspects of Egyptian audiovisual strategy is to ensure media pluralism.

In the area of **research and innovation** Egypt has formulated a new national strategy. The Egyptian Ministry of Higher Education and Scientific Research has prepared a reform strategy for the next five years (2007-2012). The restructuring of the research and information system encompasses inter alia the establishment of a Higher Council for Science and Technology - under the aegis of the Prime Minister and the setting up of a New Fund for Science and Technological Development. This fund will implement the national priority plan set up by the Higher Council and is expected to be operational in 2008.

The research strategy will be implemented through a concrete plan of actions (re-structuring of science and technology governance, national initiative for human resources development, priority national projects, funding of science and technology, national initiative for informal education, national initiative for innovation). The following national priorities have been identified: new and renewable energy, desalination and water resources, nano- and biotechnology, food and agriculture, biomedical sciences (liver, kidney and cancer) as well as information and communication technology. Due to the very efficient network of FP7 focal points (involving key research actors, i.e. universities, research centres, industry and other institutions) established under the umbrella of the Ministry of Higher Education and Scientific Research (HESR), Egypt was able to significantly increase the participation of Egyptian researchers in the European framework programme for research. In addition, a national Joint Research-Industry Fund supported by the Ministry of HESR and the Ministry of Trade and Industry was established and a number of projects funded with the objective to promote links between industry and the research community in Egypt.

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

A draft sector intervention in basic **education** is under discussion with significant European support, to implement the recently adopted strategy for education. A National Agency for Quality Assurance and Accreditation was formed to cover all education and higher education. Some progress has been made on expansion and improvement of access, particularly for rural women through teacher training. Issues of quality and attainment levels as well as the persistence of illiteracy remain key areas of policy concern alongside governance and effective school management in the context of the adoption of a decentralised system.

With regard to **vocational training**, the Supreme Council for Human Resources Development was revitalized while a task force developed an outline action plan for the implementation of a national qualifications framework. The technical and vocational education programme supported by the EC is the centrepiece of the Government's reform on technical and

vocational education, operating on the basis of a demand driven approach. The development of labour-market relevant training, adequate quality assurance and accreditation mechanisms and reform of the governance and financing of vocational education and training all present particular policy challenges. Strengthening stakeholders' capacities to impact on policy decision in the national context is an aspect that cannot be neglected. Egypt participated actively in regional programmes such as EUMEDIS and ETE as well as in Tempus III, further deepening the reform and enhancing the internationalization of its higher education system in the overall context of the Bologna Process. Tempus was particularly successful in introducing a culture of quality assurance. Student mobility to the EU increased through participation in the Erasmus Mundus and Erasmus Mundus External Cooperation Window programmes, which have also promoted academic cooperation. Closer dialogue in the education area is important in order to ensure that project activities are better aligned with the pace of higher education reform and that the opportunities offered by enhanced mobility are seized.

Egypt signed the 2005 UNESCO Convention the Protection and Promotion of the Diversity of **Cultural** Expressions and completed ratification in August 2007. An exchange of information on cultural policy and future prospect for cooperation also took place. In its second year of operation, the **Anna Lindh Foundation** established a "network of networks" linking Euro-Med bilateral partners and civil society organizations on the issues of interfaith and cultural dialogue. In 2007, these 37 Egyptian national network continued to grow, involving 115 member organizations in work on promotion of mutual understanding and peace.

While Egypt opted not to establish a national management structure for **youth cooperation** under Euro-Med Youth III, youth organizations and young people are eligible to participate in programme activities in other Mediterranean countries. Dissemination of information on available opportunities under the latter programme and the Youth in Action programme will remain an operational challenge as well as the promotion of work on informal education and intercultural dialogue with European partners. Memoranda on youth cooperation were signed with Italy and Greece. However, a dialogue on sport issues has yet to emerge.

Egypt further implemented its **health** reform programme, which, inter alia, aims at introducing a countrywide "Family health model". A new investment plan for the period 2007-2010 ensures that "Family health units" will be introduced in further governorates, thereby improving, inter alia, primary health care and the basic benefits package. The country participated in the Euro-Mediterranean workshop on communicable diseases and health systems, which prepares for a ministerial conference. The European Commission invited Egypt to the EU Network of competent authorities in health information and knowledge. Egypt took part in a TAIEX supported seminar "Health in all policies", jointly organised by the European Commission, the WHO and the European Health Observatory. It participated in the "EpiSouth" network for EU, Mediterranean and Balkan countries on communicable diseases.

8. FINANCIAL COOPERATION – 2007 KEY FACTS AND FIGURES

With the entry into force of the European Neighbourhood and Partnership Instrument (ENPI) the policy-driven character of EC assistance was reinforced and allocations generally increased. The introduction of new cooperation mechanisms such as twinning and TAIEX (Technical Assistance Information Exchange) also strengthened the EC's ability to provide financial and technical support in key regulatory areas and reforms.

Community assistance to Egypt is increasingly geared towards supporting the key policy objectives outlined in the ENP Action Plan. The National Indicative Programme is consistent with Egypt's reform agenda and the three main priority objectives that have been set under the European Neighbourhood Policy: political reform and good governance; competitiveness and productivity of the economy and socio-economic sustainability of the development process. A total of € 558 million are allocated in the 2007-2010 National Indicative Programme to support these three priorities.

In 2007 Egypt received € 137 million under the national programme. Within this envelope € 120 million were dedicated to the Education Sector Policy Support Programme (ESPSP) in support of the government's education reform agenda, where emphasis is given to decentralisation, quality improvement and higher efficiency. Further € 17 million were allocated to strengthen the overall administrative capacity of the Egyptian government for implementing the ENP Action Plan. Twinning projects were launched in areas such as maritime safety, postal management and tourism. Egypt expressed also a keen interest in using TAIEX in order to organize the study visits in the EU states and to invite the European experts.

Egypt is eligible for cooperation activities financed under the ENPI multi-country and regional programmes and the ENPI Cross Border cooperation component.

Egypt has a good track record in implementing assistance programmes and absorbing Community funds.