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**Implementation of the European Neighbourhood Policy in Egypt
Progress in 2014 and recommendations for actions**

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

Implementation of the European Neighbourhood Policy in 2014

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS FOR ACTION

This document reports on progress made on the implementation of the EU-Egypt European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2014. Developments outside this period are taken into consideration where relevant. This is not a general assessment of the political and economic situation in Egypt. Information on regional and multilateral sector processes is contained in the Partnership for Democracy and Shared Prosperity progress report.

The formal EU-Egypt dialogue under the ENP remained *de facto* suspended and the action plan was extended to March 2015, pending negotiation of a new action plan. Consultations aiming to revive the formal dialogue between the EU and Egypt took place in February and December 2014. The EU and Egypt agreed to re-launch their cooperation within the framework of the Association Agreement, beginning with arrangements for a progressive resumption of Subcommittee meetings in 2015, including on democracy and human rights.

The EU continued to carry out its outreach activities. The High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission and the EU's Special Representative for Human Rights visited Egypt and reiterated the EU's support for reforms, urging counterparts to persist in implementing the transitional roadmap adopted by the interim government in July 2013 and in promoting human rights. The EU carried out an Expert Electoral Mission (EEM) for the constitutional referendum in January 2014 and an Election Observation Mission (EOM) for the presidential elections in May 2014. These elections were deemed to have been held in rather challenging circumstances.

2014 was marked by political, security and economic challenges for Egypt. The political transition continued to unfold as two important steps in the transitional roadmap were completed. In January 2014, a new Constitution was approved. In May 2014 the former Defence Minister Field Marshal Abdel Fattah El-Sisi was elected President. Following his swearing into office in June 2014 President El-Sisi installed a government to replace the interim government in place since 2013. The roadmap was not completed in 2014, pending parliamentary elections due to take place in March and April 2015. The insurgency by militants in Northern Sinai involving terrorist attacks there as well as in mainland Egypt continued throughout the year. 2014 was also characterised by diminishing space for debate and dissent.

There was limited progress on Egypt's reforms in the areas of democratic governance and human rights. The new Constitution, which includes certain provisions that are more liberal than the preceding ones, entered into force with many areas to be governed in detail by ordinary law. The President is subject to stronger controls by parliament and his term is limited. The implementation of this new legal framework with tangible results was pending at the end of the year. Egypt remained without a parliament to enact legislation and to implement the Constitution throughout the whole year, and the President continued to issue legislation by decree. A discrepancy between existing (or amended) laws and the basic Constitutional tenets was therefore noted.

The practice applied by the state institutions with regard to law enforcement was contrary to the Constitution's protection of human rights and fundamental freedoms and the space for civil society.

Freedom of association and assembly were restricted. The freedom of the press was visibly reduced. There were no tangible developments in the fight against corruption or in reforming the judiciary. Many pro-Morsi protesters who had been arrested in 2013 remained in detention throughout the year, while few were released. The jurisdiction of military courts in civilian cases was expanded. Prisons remained in general closed for inspections by independent bodies or experts.

There was less space for the activities of civil society organisations (CSOs) due to stricter controls, which led a number of CSOs to decide to close their offices in Egypt. Furthermore, draft legislation envisages restrictions and detailed administrative controls of CSO funding from abroad.

The economic situation remained difficult, notably due to market distortions caused by a decades-long heavily subsidised system (energy, fuel and water). Inflation continued to increase and economic growth was sluggish. However, the budget for 2014-15 includes major subsidy reforms in this area, and these are underway. Due to security threats, gas exports to Israel and Jordan were disrupted. The security threats led to a drop in tourism and investment, and threatened the stability of shipments coming through the Suez Canal.

Overall, Egypt made limited progress in implementing the ENP Action Plan, especially on deep and sustainable democracy. The continued use of the death sentence, including against 1200 persons in March and April, was of particular concern. The restrictions on civil society and peaceful demonstrations were also of concern.

However, the above analysis needs to be seen in a difficult regional and internal security context, with Egypt facing challenges such as the ongoing insurgency of militant groups and the threat of a possible impact of the effects of Da'esh (including allegiance pledged to Da'esh by Sinai-based Ansar Beit al-Maqdis). These groups primarily target the state security forces, causing significant loss of life including among civilians, as well as key infrastructure. In addition, Egypt faced considerable security challenges related to the situation in Libya and the flow of migrants at its border with Libya, which is over 1 000 km long.

Egypt actively mediated between Hamas and Fatah and between Palestine¹ and Israel, working towards a permanent ceasefire and its implementation.

Based on the assessment of its progress in 2014 on implementing the ENP and with the perspective of resuming the formal dialogue under the ENP in 2015, Egypt should focus its work in the coming year on:

- fully enacting the 2014 Constitution and implementing it, in particular to ensure rule of law and to improve human rights and fundamental freedoms;
- completing the 2013 transitional roadmap by organising genuine democratic parliamentary elections, with a free and open campaign, so that parliament can enact and ensure national legislation compliant with the Constitution and with international standards, thereby ending legislation by decree;

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

- amending the law on assembly in line with the Constitution and with international standards;
- creating conditions conducive to an active and independent civil society that can contribute to the country's political, social and economic development, through appropriate legislation on non-governmental organisations (NGOs) and clarification of provisions under Article 78 of the Penal Code concerning funding provided to NGOs;
- re-applying a moratorium on the death penalty;
- applying due legal process and ensuring that prison conditions comply with international standards and practices and allowing access to prisoners;
- ceasing the practice of military courts judging civilians;
- ensuring that investigations of cases of alleged violence, including sexual abuse, are carried out and that the perpetrators are promptly brought to justice, and ensuring the protection of women's rights and gender equality;
- ensuring that regulations on the right of asylum are in line with the Constitution and international standards on the rights of migrants and refugees;
- ensuring macroeconomic stability, strengthening public finance management and taking action to implement necessary economic reforms, reducing barriers to trade and ensuring correct implementation of the tariff dismantling process;
- ensuring and further implementing social safety net systems to protect those who are most vulnerable.

2. POLITICAL DIALOGUE AND REFORM

Deep and sustainable democracy

A new **Constitution** was adopted in January 2014, following its approval in a referendum in which 38.6% of voters participated. In general, the Constitution can be considered to be more liberal than the previous constitutions, but remains conservative, in particular on freedom of religion and belief. It limits the powers of the President in a semi-presidential system, notably through term limits and parliamentary checks, but it strengthens the autonomy of state institutions such as the military, and especially the judiciary. Importantly, it includes an unprecedented level of protection for human rights and individual freedoms, and bolsters the rights of women and gender equality. However, these liberal precepts have not yet been applied in the spirit of the constitution.

Despite the fact that around five million women were not included on the voter list and were effectively disenfranchised due to their lack of identification documents, women were the largest group of voters who endorsed the constitution. The recourse to military trials of civilians' remained. The Constitution leaves many areas to be determined by ordinary legislation.

In a departure from the constitutional declaration of 8 July 2013 (roadmap), the Constitution allows for changes to the electoral timetable, following which presidential elections can precede parliamentary elections. **Presidential elections** were subsequently announced in March 2014, in line with the 90-day timeline to begin electoral procedures. General El-Sisi was promoted to Field Marshal by the Supreme Council of the Armed Forces and announced his candidacy for the Presidency. The Presidential Elections Commission approved two candidates: El-Sisi and Hamdeen Sabahi, a Nasserite politician who had come third in the 2012 presidential elections that brought Mohamed Morsi to power. El-Sisi won the elections held on 26-28 May 2014 with 97% of the vote, with the turnout recorded at 47%. Sabahi won 3% of the valid votes, with 4.91% spoiled ballots. El-Sisi was inaugurated on 8 June 2014, and was sworn in before the Supreme Constitutional Court.

The EU carried out an **Expert Electoral Mission (EEM)** for the constitutional referendum in January 2014 and an **Election Observation Mission (EOM)** for the presidential elections led by Mario David, Member of European Parliament. The EOM concluded that the elections were held in a challenging political context, despite broad public support for the roadmap. Although the overall electoral process was judged to be satisfactory on polling day itself, the EOM was critical of partial media coverage, very limited space for dissent, and the political/legal context the elections were held in.

The roadmap was not completed in the course of the year, pending parliamentary elections. In the absence of a parliament, legislation continued to be issued by decree. Preparations for the parliamentary elections started in 2014.

The Muslim-Brotherhood-affiliated political party, the Freedom and Justice Party, was banned by Court order in August 2014 on the grounds of being associated with a terrorist organisation. Cases were filed to also ban the Salafist Building and Development and Al-Nour parties. However, an Urgent Matters Court decided that it lacked jurisdiction over a lawsuit filed against political parties founded on a religious basis.

In July the Ministry of Social Solidarity re-launched a consultation process on a controversial piece of NGO legislation currently under preparation, after the process had stalled in December 2013. The Ministry later announced the establishment of a committee to review the draft law to ensure that it would be in line with the constitution. New government proposals presented were widely seen as restricting the **freedom of association** and strengthening controls on civil society.

Several NGOs closed their offices and left Egypt when their applications for registration were rejected.

There has been serious concern after the Ministry announced that all entities involved in NGO activities had to register as NGOs by 10 November 2014, not as other legal entities, thus obliging them to conform to the stringent rules under NGO legislation. In addition, the President approved an amendment to the Penal Code in September 2014, which envisaged harsh punishment for anyone receiving foreign funding for activities that intended to harm national interest or unity. This aimed to contain **terrorist** activities but its vague legal formulation permits a broad interpretation, causing concerns that NGOs critical of the government might be targeted.

EU cooperation with **civil society** suffered due to the difficult process of CSO registration and the lengthy and complicated process for authorising project funding. This resulted in the suspension of a substantial number of projects.

The uncertainty about the revision of the law of association further hampered the work of civil society, including those delivering critical basic public services. The EU continued to support national entities and CSOs in addressing children's and women's rights, and human rights in general.

The **freedom of assembly** remained seriously restricted by the controversial 'protest law, which governs the right to public assembly and peaceful protests, passed by the interim President Mansour in November 2013. Anti-government protests continued in 2013-14, in particular in universities. A very high number of people continued to be arrested since former President Morsi's ouster for violating the 'protest law', and there were recurrent calls to amend it to bring it into line with the Constitution. Trials against activists and political detainees were often based on violations of this restrictive law. The Supreme Constitutional Court was expected to start examining the constitutionality of the law in 2015.

The **freedom of the press** was reduced significantly: Many journalists, including foreign correspondents, were harassed by security agents and pro-regime mobs. Al Jazeera, perceived by the authorities as friendly to the Muslim Brotherhood, was specifically targeted, with several of their journalists (including non-Egyptians and some Europeans) sentenced in June to seven to ten years of imprisonment for joining or assisting a terrorist group and spreading misinformation harmful to Egypt's national security. On 1 January 2015 the Court of Cassation ordered a re-trial of three Al-Jazeera journalists, due to a flawed original trial, while journalist Peter Grete was released and deported to his country of origin. Self-censorship vis-à-vis the authorities prevailed, exemplified by a statement by main chief editors that they would stop publishing content which could undermine state institutions in the wake of the attacks on security forces in Sinai in October.

As regards **transitional justice**, the Fact-Finding Committee set up in November 2013 by then-interim President Mansour to look into the violent incidents following former President Morsi's ousting, presented its findings and recommendations to the President in November 2014, and he agreed that the report could be published. The report largely attributes responsibility for the violence to the Muslim Brotherhood/Islamists and exculpates security forces. In March 2014, the National Council for Human Rights released a separate report, which concluded that, on the contrary, security forces used excessive force in these events, namely in dispersing the Rab'a sit-in in August 2013. There were no judicial investigations or prosecutions of state security personnel in 2014 in relation to the dispersal.

The case against Hosni Mubarak who was charged with responsibility for the killing of protesters during the 25 January 2011 revolution was dismissed in November 2014 on procedural grounds. Former Interior Minister Habib Al-Adly and six of his aides were acquitted in the same case. The Prosecutor General launched an appeal. In January 2015, it was decided that former Egyptian President Hosni Mubarak and his two sons would be retried on charges of corruption.

The prosecution of opponents and dissenters – many arrested for violating the contentious ‘protest law’ – in many cases showed due process and **procedural deficiencies**, including mass sentences, harsh rulings based on insufficient evidence or failure to allow lawyers to cross-examine witnesses. Lengthy pre-trial detention with no formal charges was also prevalent. The mass **sentencing to death** of some 1200 Muslim Brotherhood/Morsi supporters in March and in April 2014 in Minya received broad international attention. 220 of the sentences were later confirmed, after consultation with the Grand Mufti. They are under appeal. 183 people were sentenced to death in February 2015. In addition, Egypt resumed executions in June 2014, after a *de facto* moratorium since 2011.

The **security sector** remained unreformed. Following the election of El-Sisi as President, the military consolidated its influence over key political decisions in Egypt. The new Constitution gives the Supreme Court of the Armed Forces (SCAF) the final say on appointments to the position of Minister of Defence. According to the new Constitution, the military budget continues to go before parliament as a single budget item. Military trials of civilians continued throughout the year. A new presidential decree issued in October following terrorist attacks in Sinai broadened the scope for the military trial of civilians.

Other human rights and fundamental freedoms

Throughout the year, reports emerged of arbitrary arrests by security forces and inhumane conditions in prisons. Other reports referred to forced disappearances and **torture** in facilities outside judicial oversight.

The National Council for Human Rights and the Fact Finding Committee were granted **access to prisons** only in some cases. Prisons remained in general closed for inspection by local or international organisations.

As regards the **freedom of religion or belief**, the Egyptian authorities obliged mosques to lay down a theme for their weekly Friday sermons in a move to curb Islamist dissent and extremism. The Minister for Religious Endowments banned all NGOs from collecting donations inside mosques and instructed imams not to let anyone speak from the pulpit or give religious lessons without prior written ministerial permission. On the other hand, there was a noticeably positive approach towards Coptic Christians, including through symbolic gestures and through easing of restrictions on church construction and restoration.

There was progress on investigations into cases of targeted **sexual violence** against women, recurrent in crowded squares during demonstrations and holiday celebrations. A number of defendants received sentences up to life imprisonment for sexual assault. Reports emerged that female protesters were subject to abuse and rape by the police while in detention and that these incidents were not subject to any form of investigation.

Child labour persisted and street children remained subject to exploitation and sex trafficking. The new Constitution plans for the establishment of the child protection committees envisaged under the Child Law of 2007. These have only been set up in two governorates, but were not operational yet at the end of 2014. A number of **underage protesters** were detained in adult facilities instead of being treated by the youth justice system.

An increasing number of arrests of members of the lesbian, gay, bisexual, transgender and intersex (**LGBTI**) community took place under accusations of debauchery. The defendants were referred to trial where they were given harsh sentences after very short proceedings. LGBTI people continued to face harsh treatment in police custody, physically and mentally, and were often subjected to non-consensual medical examinations.

Other governance-related issues

Corruption and lack of transparency remained issues of concern in 2014. In the Global Competitiveness Index released in August 2014, Egypt ranked 118th. In the 2014 Constitution, Egypt's highest audit institution (the Central Audit Office) retained the relative increase in independence it gained under the 2012 Constitution, but the related laws were not put in place.

There was significant **corruption** in dealings related to land properties and in the security administration. The mandate of the Administrative Control Authority (ACA) was extended to cover strategy development, prevention and investigation; the ACA's role in fighting corruption and organised crime was thus strengthened. The role of the National Coordinating Committee for Combating Corruption was also strengthened given that it was placed under the ACA's leadership and transferred from the Ministry of Justice and placed under the authority of the Prime Minister. Support for finalising the implementation of the national strategy to combat corruption remained the main way in which the EU continued to support Egypt.

The functions of planning, administrative reform and monitoring were merged under a ministry specifically designed for these purposes as the single competent authority on them. A strategy for administrative reform was launched in July. The EU continued to support improvements in Egypt's national training capacity and simplifying procedures by supporting the Central Agency for Organisation and Administration. Provisions that foster administrative, financial, and economic decentralisation are included in the new Constitution. Egypt updated and implemented its decentralisation strategy.

Following the decision to revive EU support for reforming the justice administration, taken in April, a consortium of EU Member States including France, Spain, Italy and the United Kingdom was set up to: assist Egypt's government in strengthening administrative processes; improve the efficiency of the justice system; support the institutional capacity of the main training institution for the judiciary and justice administrators (National Centre for Judicial Studies); and support child-friendly courts.

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

After the ouster of former President Morsi and the election of President El-Sisi, Egypt experienced a **revival of foreign policy** driven by the country's ambition to regain leadership in the Middle East and North and Sub-Saharan Africa. Thanks to its intensive 'Africa campaign', Egypt was reintegrated into the African Union in July 2014. As a result of renewed regional turmoil, Egypt emerged as an important foreign-policy partner.

The EU consulted with Egypt on cooperation on foreign and security policy, with a particular focus on the Gaza Strip and to a lesser degree on North and Sub-Saharan Africa. Egypt played a pivotal role in brokering a ceasefire in the Gaza Strip in August 2014 and hosted a successful Reconstruction Conference in October. Its constructive influence over the Palestinian Authority and Hamas (despite Egyptian mistrust of the latter given its affiliation to the Muslim Brotherhood) and regained levels of ‘practical’ mutual trust of Egypt with Israel offered a springboard for the EU and broader international efforts to seek the return of the Palestinian Authority to the Gaza Strip and instigate momentum to the peace process.

3. ECONOMIC REFORM AND SOCIAL REFORM AND DEVELOPMENT

Egypt’s social instability and security threats continued to undermine the economy. The macroeconomic situation remained weak and fragile, with persistent external and internal imbalances. However, these were largely kept in check thanks to financial support provided by Saudi Arabia, Kuwait and the United Arab Emirates (UAE). Real **GDP growth** remained subdued but stable at 2.2 %² for the fiscal year 2013-14, driven by private consumption, but was held back by weaker exports, tourism and investment. On the upside, quarterly GDP growth data show an upward trend. Inflation remained persistently high at more than 10 % on average. **Monetary policy** was tightened in July, when the Central Bank increased the benchmark interest rates by 100 basis points, in response to inflationary pressures and in support of the Egyptian pound. The **fiscal deficit** remained unsustainably high, reaching 13.6 % of GDP reflecting two stimulus packages and various spending pledges. Without grants from the Gulf countries, the deficit for the 2013-14 fiscal year would have reached 17.4 % of GDP.

Bold reform efforts were launched in the budget for 2014-15 to reduce expenditure, and in particular to begin reducing energy subsidies, which represented almost 7 % of GDP, as part of a 5-year macroeconomic plan focused on fiscal consolidation and inclusive growth. The balance of payments remained of concern, despite a decrease in the **current account** deficit to an estimated 0.8% of GDP, but which was mainly due to a large increase in inflows of foreign assistance from the Gulf countries, while key sectors like tourism fell by almost 50% in the 2013-14 fiscal year. An Article IV Consultation of the International Monetary Fund took place in November, for the first time since 2010.

The **unemployment** rate rose to 13.4 % in 2014, with youth unemployment reaching 22.1 % for 25-29 year olds and 46.4 % for 20-24 year olds. The latest household survey showed an increase in poverty, with 25.2 % of Egyptians living below the national poverty line, and 23.7 % just above it. On the positive side, extreme poverty fell to 4.8 %.

Prominent trade unionists were appointed as ministers in the interim government, a move widely seen as an expression of commitment to **reforms in the social sector**, and a draft law on minimum/maximum wages was prepared.

² For sources and detailed figures, see Statistical Annex accompanying the reports. Figures without sources are forecasts by Commission services.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU-28 continued to be Egypt's main **trading partner**, with total trade in goods amounting to EUR 25.5 billion in 2014. Trade and investment continued to be affected by a number of trade irritants, regulatory barriers and restrictions on investment.

Egypt continued to make regular use of **export taxes and bans**. Export taxes were imposed on rice, marble and granite, metal scraps and sand, and there were bans on the export of solvents (essential in paint manufacturing and comprised mainly of diesel fuel), and mineral raw materials: quartz, talc, manganese and feldspar.

In January 2014 Egypt implemented an autonomous one-year suspension of the Association Agreement tariff dismantling schedule on passenger cars. In February 2014 it suspended the import of motorcycles and three-wheeled vehicles (tuk-tuks) for one year, and the import of their components for three months. In May, it re-allowed their import for private or personal use and the import of components used for producing the vehicles (engines, chassis). The import of tuk-tuks and motorcycles for trading purposes remained suspended.

In view of possible future negotiations for a **Deep and Comprehensive Free Trade Area** (DCFTA), an external contractor carried out a sustainability impact assessment on the potential implications. This included a stakeholder consultation exercise in Egypt. However, no preparatory official discussions for a DCFTA took place.

As regards **technical regulations**, a decree issued in June introduced ten new standard specifications on imported cars and spare parts. These standards had already been applied to locally-assembled cars and aimed to prevent the import of sub-standard vehicles and spare parts, or those not conforming to international standards. A twinning operation in support of metrology and standards was signed in November (with a UK-led consortium). A twinning operation in conformity assessment and accreditation was signed in December with a consortium led by Germany.

In the area of **customs**, in April 2014 Egypt ratified the regional convention on Euro-Mediterranean preferential rules of origin. The convention entered into force on 1 June 2014.

On **sanitary and phyto-sanitary issues**, Egypt took part in an EU programme managed by the European Food Safety Agency to promote the participation of neighbouring countries in the agency's work.

Egypt showed interest in the EU's integrated **maritime policy**/blue growth concepts and acknowledged the importance of addressing maritime issues in a more coordinated way.

A new twinning project in support of the development of an improved certification system for the **accountancy** and **audit** profession was signed with the Spanish Institute for Fiscal Studies in late 2014.

There were improvements in the **investment climate**. In April 2014 a presidential decree regulating challenges to state contracts was adopted and aimed to address the myriad of lawsuits put forward since January 2011 over the legality of past privatisation contracts. This decree was welcomed by investors as likely to bring more legal certainty.

As regards the **movement of capital and current payments**, a number of restrictions were imposed through administrative measures taken by the Central Bank, in response to foreign exchange shortages. Some limitations were still in place for individuals, whereas for companies the Central Bank guaranteed that profits and dividends could be expatriated without restrictions.

A 10% **tax on capital gains** and stock dividends and a temporary 5% wealth tax on annual company profits and personal income over and above EGP 1 million were introduced in June.

In July, **excise** duties on alcohol and cigarettes were increased, and the President issued a decree on implementing the real estate tax (envisaged to focus mainly on high-end private housing and corporate real estate). Preparations for the replacement of the sales tax by **VAT** were ongoing, but implementation is only expected in 2015.

A twinning project carried out with the Egyptian **Competition** Authority was signed at the end of 2014 with a consortium led by the German Federal Cartel Office.

The legislation on **public procurement** was amended to increase the thresholds under which direct awarding of contracts is allowed in emergency situations.

New **statistical** surveys carried out in 2014 covered topics such as housing rents, violence against women, disability and migration. Results of the innovative survey on the determinants and consequences of international migration are expected in 2015.

The transitional cabinet formed by President El-Sisi created a specific ministerial portfolio to coordinate **SME policy**. Proactive steps were taken to formulate a national SME strategy. The joint 2014 evaluation of SME policy³ highlighted challenges including the improvement of the regulatory framework governing microfinance institutions, tailored training schemes for SMEs, and the definition of a comprehensive policy framework promoting entrepreneurial learning at all levels of the education and training system.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Concerning **asylum**, the UN High Commissioner on Refugees (UNHCR) reported that 139 501 Syrian nationals were registered in Egypt as of 10 September 2014. According to estimates, the total population of Syrian refugees in Egypt reached two to three times this figure. The influx was significantly reduced after June 2013 when the suspension of the “visa-free” system considerably changed entry and residency conditions for Syrians. Most Syrian refugees in Egypt were not in camps but stayed in urban neighbourhoods, renting and sharing accommodation. They faced economic and social hardship and became more and more vulnerable. Cases of harassment and violence were recorded, as well as cases of denial of public services, and an increase in arrests and deportation. Some 300 000 registered Syrian refugees had access to health services, while Syrian children were granted access to schools regardless of their registration status.

³ "SME Policy Index The Mediterranean Middle East and North Africa 2014 Implementation of the Small Business Act for Europe" (SBA)".

The human trafficking problem in Sinai subsided, as a result of closing the border with Israel, the toughening of immigration laws and an increased army presence in Sinai. Migration flows shifted westwards towards Libya. In line with the government's efforts to finalise and implement the National Strategy to combat trafficking in human beings, the EU prepared further specific support jointly with the Ministry of Justice and the International Organisation for Migration.

Irregular **migration** by sea departing from Egypt increased significantly in 2014. Figures indicate that from 1 January to 31 August 2014, nearly half of the 3 026 Egyptians arriving in Italy were unaccompanied minors. UNHCR Egypt was aware of the arrest during 2014 of more than 3 000 individuals. Exit from detention was often premised on departure from Egypt and conditions of asylum were believed to be an important push factor for refugees to attempt migration by sea.

There were no developments regarding Egypt's accession to the Hague Conventions on judicial cooperation.

Cooperation with Egypt on the fight against **terrorism** was stepped up, driven partly by regional developments. Egypt participated in a practitioners' seminar organised by the EU's Counter-Terrorism Coordinator on foreign fighters in Syria in February and possible other forms of cooperation were discussed during a visit of the Counter-Terrorism Coordinator in December, with a particular focus on foreign fighters, de-radicalisation and counter-narratives. In that respect, a strengthened judicial cooperation with Eurojust, including the nomination of a Eurojust contact point, would be helpful in fostering closer coordination with the EU in the fight against terrorism.

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

No major policy reforms took place in the **transport** sector in 2014. However, a number of steps were taken to develop the country's transport infrastructure. Projects announced during the year included major rehabilitation and construction of roads (484 km at a cost of EGP 984 million or around EUR 110 million), as well as railway and maritime port infrastructure.

In the field of **energy**, Egypt's oil and gas production continued to be hampered as a result of the government accumulating debts to foreign investors. About USD 2 million in arrears that the General Petroleum Corporation owed to foreign operators were settled, while USD 3 million remained to be paid. Several energy-intensive industries had their supply of energy curtailed by the Egyptian Natural Gas Holding Company. The government's main efforts were directed at reforming the petrol and electricity subsidies, while improving electricity generation, import and connection. In March 2014, the Ministers of Petroleum and Electricity agreed to form a joint technical group to follow up on operations of the electricity and natural gas networks. Negotiations were reportedly conducted with a number of companies and states to import gas for the re-export through Egypt's LNG (liquefied natural gas) plants.

In June, the Prime Minister issued a decree increasing the price of electricity gradually for five years to reduce the need for subsidies. Following the approval of the 2014-15 state budget, the government agreed to cut **fuel subsidies** by EGP 44 billion, to reduce the budget deficit to 10% of GDP. This affected the price of oil products, with average increases of 40% in July 2014 on different types of fuel. The government decided to allow the use of **coal** in the energy sector, as well as by industries such as cement, subject to environmental controls.

As regards developing **renewable energy** sources and promoting energy efficiency, the EU-Egypt energy sector policy support programme was on hold as the budget support general conditions for disbursement were not met. However, a number of objectives were achieved through technical assistance, including related draft legislation. The electricity regulator also issued a decree to incentivise the installation of photovoltaic panels. The government took first steps towards realising its objective to achieve 20% of renewable energy in the energy mix by 2020. It approved new feed-in tariffs for renewable energy in September. Work continued on wind energy projects, including construction of the 200 MW wind farm at Gab El Zeyt and preparations for a new wind farm at Gulf El Suez.

Egypt began preparations for the third national communication under the UN Framework Convention on **Climate Change**. This included mainstreaming the low-emission development strategy into national planning, mapping the nationally-appropriate mitigation actions and development of national monitoring, reporting and verification systems. The CLIMA South project took its first steps in view of establishing a national climate change centre.

A solid waste management sector was set up under the authority of the Ministry for **Environment**, and a draft national solid waste management policy document was prepared. With the support of the EU, Egypt also launched further reforms in the **water sector**. The 'integrated Lake Burullus' project, which includes the construction of a waste water treatment plant in Kafr El Sheikh and which was supported by the EU Neighbourhood Investment Facility (NIF), was one of the four leading projects selected by the Mediterranean Hot-Spot Identification Programme's Project Preparation Implementation Facility under the 'Horizon 2020' Initiative for a cleaner Mediterranean Sea.

As regards **information society policy**, the government worked on a proposal to amend the telecommunications system, which would include provisions to avoid the disconnection of internet services, as well as addressing the regulator's competences and competition policy provisions for the sector. A review of the telecoms licensing system was proposed in April 2014, and recommended introducing more competition into the fixed and mobile markets.

The EU launched its new Framework Programme for Science, Research, Innovation and Technology, called 'Horizon 2020', for the South Med region in Cairo in February 2014. The ShERACA+ project, aiming to strengthen bi-lateral cooperation between the EU and Egypt in **science, research, innovation and technology**, was launched in January 2014. The RDI-II programme approved financing for 26 research and innovation projects.

During 2014 Egypt continued to prepare for its participation in the "Global Monitoring for Environment and Security (GMES) and Africa programme".

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

The government introduced a new strategic framework, the ‘national strategic plan for education reform 2014-30, and a short-term plan covering 2014-17. The EU supports the priorities set out in the strategic plan. The new Egyptian constitution, which was approved in January, stipulated that government spending in the field of education should reach at least 4% of GDP.

As regards **technical and vocational education and training** (TVET), the government created a National Human Resources Development Council (chaired by the Prime Minister) with two Executive Councils (for TVET and for skills development). The position of a Deputy Minister of Education in charge of Technical Education was created in spring.

Egypt participated in the **Tempus** programme with 34 on-going projects out of which 7 are coordinated by an Egyptian higher education institution. 453 students and staff were selected in 2014 within partnerships supported by Erasmus Mundus. Eight master students and five doctoral candidates received scholarships to participate in joint masters and doctoral programmes. Three organisations were selected for funding under the Marie Skłodowska-Curie actions (MSCA) under 'Horizon 2020'. **Youth** and youth organisations benefited from **Erasmus+**, with 346 participants in mobility projects and 41 in the action for young people and decision-makers in the field of youth.

Access to **culture** remained a challenge. EU cooperation with Egyptian authorities and cultural operators helped to address this issue. The lag in implementing Egypt’s international commitments to protect cultural heritage was due to a lack of capacity in the relevant departments within Egyptian ministries. The EU initiated discussions with the authorities and stakeholders to identify new programmes that would respond to the needs of the sector. Cooperation on MedCulture and Euromed Audiovisual programmes continued.

The new constitution also confirmed the importance of **public health** for Egypt’s development and set a public spending target for related expenditure to at least 3% of GDP. In consultation with the stakeholders (including donors), the new Health Minister drafted a white paper entitled ‘Framing National Health Policy’, which reiterated the emphasis put on modernising and standardising public primary healthcare. The EU budget support for this sector, the health sector policy support programme II, could not disburse any funds in 2014 due to non-compliance with general conditions placed on budget support operations.