



# Egypt in Transition

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## Summary

On February 11, 2011, President Hosni Mubarak resigned from the presidency after 29 years in power. For 18 days, a popular peaceful uprising spread across Egypt and ultimately forced Mubarak to cede power to the military. How Egypt transitions to a more democratic system in the months ahead will have major implications for U.S. foreign policy in the Middle East and for other countries in the region ruled by monarchs and dictators.

This report provides a brief overview of the transition underway and information on U.S. foreign aid to Egypt. U.S. policy toward Egypt has long been framed as an investment in regional stability, built primarily on long-running military cooperation and sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as a moderating influence in the Middle East. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations and these debates are likely to influence consideration of appropriations and authorization legislation in the 112<sup>th</sup> Congress. The United States has provided Egypt with an annual average of \$2 billion in economic and military foreign assistance since 1979. For FY2012, the Obama Administration has requested \$1.551 billion in total aid to Egypt.

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## Egypt in Transition

Egypt is undergoing a historic political transition after a popular revolution which began on January 25 forced the resignation of former President Hosni Mubarak on February 11. The Supreme Council of the Egyptian Armed Forces (SCAF) has taken temporary control of the day-to-day affairs of the country and is overseeing a delicate transition to democracy, driven largely by the demands of the youth protest movement. The SCAF is ruling Egypt under military martial law. The constitution has been suspended and parliament has been dissolved. The SCAF has emphasized that Egypt will adhere to all international treaties and obligations, a reference to its plans to uphold the 1979 peace treaty with Israel. The SCAF also has said that it will not field a candidate in a future presidential election.

**Figure 1. Map of Egypt**



Presently, the major debate in Egypt is over the speed of the transition process, with the SCAF arguing that a rapid transition is needed to restore international confidence in the Egyptian

economy and to ensure the public that the military has no intention of ruling Egypt over the long term. Protestors assert that too quick of a transition disproportionately benefits the more retrograde but politically organized forces in Egyptian society, such as the Muslim Brotherhood and the former elements of Mubarak's National Democratic Party (NDP). Amidst the contentious but peaceful wrangling over Egypt's future, the SCAF is working to transition Egypt to a democracy by

- **Dismantling the Mubarak Regime.** Since February 11, the SCAF has shuffled the cabinet twice, most recently in early March when it fired three holdovers from the Mubarak era: Prime Minister Ahmed Shafiq, Foreign Minister Ahmed Aboul Gheit, and Justice Minister Mamdouh Marei. In addition, a number of former regime officials and businessmen have been either dismissed, arrested, or placed under investigation, including Habib al Adly, the former interior minister, and Ahmed Ezz, the former chairman of the national assembly's budget committee and the owner of Ezz Steel. President Mubarak is under house arrest, and Egypt's Ministry of Justice is investigating his family's finances. To date, all of the Mubaraks' identifiable assets inside Egypt have been frozen and some of their foreign accounts also have been frozen. The SCAF also has pledged to dismantle and then reconstitute the reviled state security force run by the Ministry of the Interior. Formerly, this agency had been involved in suppressing political dissent. In its place, a new agency would focus only on countering domestic terrorism threats, though many employees of the previous agency would be retained.
- **Amending the Constitution.** On March 19, the country held a national referendum on the passage of eight amendments to the constitution that would, among other things, institute presidential term limits, restore judicial oversight of elections, and—perhaps most importantly—ease the eligibility requirements for presidential candidacy. Despite protestors calling for a “no” vote, the referendum passed with 77.2% approval amidst a 41% voter turnout, the highest on record in recent years.
- **Holding Elections.** The SCAF has scheduled parliamentary elections for September 2011. Elections had been previously set for June, and the SCAF may have moved the timetable back to give Egypt's young revolutionaries more time to organize politically. No date has been set for presidential elections. Some Egyptians, including Coptic Christians, want to rewrite the constitution entirely before holding any election, charging that there are still many non-democratic provisions that could be abused by a democratically elected government.<sup>1</sup> On March 28, the SCAF announced that the Emergency Law will be lifted before parliamentary elections are held. It also issued a decree easing conditions for the formation of political parties. Under the decree, new parties must have at least 5,000 members across 10 provinces, with at least 300 members in each province, in order to gain recognition.<sup>2</sup>

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<sup>1</sup> Some Coptic Christians want to change Article 2, which states that the official religion of Egypt is Islam, and the principles of *Sharia* (Islamic law) are the main source of legislation.

<sup>2</sup> Under the old political parties law, a committee comprised of pro-Mubarak allies subjectively determined which new parties to legalize. The new law would, according to one report, “give citizens the right to establish parties by notifying a newly established judicial committee. A party would be recognized 30 days after sending the notification, if the committee has not issued objections. There are restrictions, though. The council banned the formation of political (continued...)”

For a country that has experienced political stasis for several decades, events over the past two months have been unprecedented, and it appears that while the transition will be swift, the SCAF has somewhat compromised in recent weeks with the protest movement by allowing for more time before holding elections. The Muslim Brotherhood actively campaigned for a “yes” vote prior to the March 19 referendum, and its success may have helped to slow the process.

## Recent Developments

The extent to which Egypt’s military, fueled by the demands of protestors, has dismantled the regime of former President Hosni Mubarak continues to astound foreign observers, while some U.S. policymakers may be growing concerned over Egypt’s new, more independent foreign policy. Amidst rapid change, Egypt’s economy continues to stall, and Egyptian officials and others are seeking U.S. support for debt relief, continued foreign aid, and enhanced trade and investment.

On the domestic political front, parliamentary elections are now scheduled for September 2011. It is not clear what type of electoral system (party list, proportional representation) will be used. The Muslim Brotherhood’s party (Freedom and Justice) has indicated that it will contest at least 30% of all seats and possibly as many as 50%, though internal discussions on this matter continue. The former ruling party, the National Democratic Party, has been dissolved by court order and reconstituted as the New National Democratic Party. Other parties, both religious and secular, are forming. Most analysts expect that the Muslim Brotherhood will wield significant influence and may be a determining factor in the formation of majority coalitions, though it is too early to predict what the composition of the next parliament will look like.

Political transition in Egypt has led to increased crime rates, sectarian tension and reports of increased Islamist extremism. Amid continued protests, the Supreme Council of the Armed Forces (SCAF) has continued its campaign to eliminate most vestiges of the Mubarak regime. In the spring of 2011, this effort led to the arrest of former president Mubarak himself, along with his two sons, Gamal and Alaa. Although the former president has been confined to Sharm el-Sheikh Hospital due to continued reports of ill health, his sons have been detained and interrogated in Egypt’s notorious Tora prison, an ironic twist of fate due to the facility’s previous role in incarcerating democracy activists and dissidents.<sup>3</sup> In early May 2011, Swiss authorities announced that over \$460 million in frozen bank deposits has been identified as belonging to the Mubarak family.

With Egypt transitioning to possibly a more democratic society, the country’s foreign policy is evolving to reflect public opinion. Over the course of the last several weeks, Egyptian diplomats and military figures helped broker a tentative Palestinian reconciliation deal between Hamas and the Fatah-controlled Palestinian Authority, a goal that had eluded the former Mubarak government due to mutual Hamas-Egypt mistrust over the latter’s support of Israel’s enforcement of the Gaza blockade. Egypt has now pledged to open the Gaza-Egypt border and endorse the Palestinian Authority’s attempt to secure international recognition of statehood. Moreover, Egypt

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parties on religious grounds and those discriminating against citizens based on race or faith.” See, “Egypt to Lift Emergency Law Before Vote for Parliament,” *Washington Post*, March 29, 2011.

<sup>3</sup> Other former regime officials jailed at Tora Prison include Ahmed Nazif (former PM), Habib el Adly (former Min of Interior), Ahmed Ezz (NDP official), Safwat el Sherif (Head of NDP), and Zakariya Azmi (Mubarak’s Chief of Staff).

also has indicated its intention to “normalize” relations with Iran. In the midst of this new approach, saboteurs, alleged to be Bedouins, staged a third attack on the natural gas terminal at El Arish in the Sinai peninsula, halting the delivery of Egyptian gas to both Israel and Jordan for the second time this year. A 20-year Israeli-Egyptian gas deal signed in 2008 has been criticized by many Egyptian groups, and the former president and his family have been accused of personally profiting from the deal.

Perhaps the greatest threat to Egyptian stability is the state of the moribund economy, which has yet to recover from the revolution. Currently, Egypt is seeking debt relief from many of its international creditors, including the United States. Current Egyptian bilateral debt to the United States is an estimated \$3 billion and debt servicing costs the Egyptian government between \$316 million and \$330 million per year. U.S. debt relief requires an act of Congress to pass, as it did when the United States forgave \$6.7 billion in Egypt’s military debt in gratitude for Egypt’s participation in Operation Desert Storm in 1990. Reports indicate that Egypt also is seeking a stabilization package of loans from the International Monetary Fund worth \$3 billion to \$6 billion. According to various reports, Egypt’s economy shrank 7% in the first quarter of 2011, and its net international reserves fell 16% to \$30.1 billion in the first quarter.

## **U.S. Response**

Many analysts expect Egypt’s transition to take years, not months. Though there have been many challenges over the past two months, including sectarian violence, economic stagnation, and rising crime due to a lack of police forces, many foreign observers are confident that Egypt has the potential to serve as a model for transitions elsewhere in the region. U.S. officials have been supportive of the SCAF, while at the same time reaching out to new political forces inside the country. Secretary of State Hillary Rodham Clinton and Secretary of Defense Robert Gates have both visited Egypt in recent weeks and pledged their support. To date, the Administration has provided the post-Mubarak Egyptian government with \$150 million in previously appropriated aid to Egypt, of which \$90 million is for emergency economic assistance. In addition, the U.S. Export-Import Bank has approved \$80 million in insurance cover to support letters of credit issued by Egyptian financial institutions. The Administration also has instructed the Overseas Private Investment Corporation (OPIC) to provide financial support to encourage private sector investment in Egypt. Finally, the Administration and some lawmakers are working to establish an Egypt-American Enterprise Fund that will stimulate private sector investment. Reportedly, the fund would be seeded with \$60 million in U.S. Economic Support Funds to Egypt. S. 618, a bill “To Promote the Strengthening of the Private Sector in Egypt and Tunisia” would, among other things, establish an Egyptian-American Enterprise Fund to “promote policies and practices conducive to strengthening the private sector in Egypt through measures including loans, microloans, equity investments, insurance, guarantees, grants, feasibility studies, technical assistance, training for businesses receiving investment capital, and other measures.”

## U.S. Foreign Assistance to Egypt

The following information is background on U.S. aid to Egypt before its recent revolution.

### Overview

The revolution of January 2011 suggests that the terms of recent debate over U.S. assistance to Egypt may change significantly in the coming months. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. foreign assistance. In FY2010, Egypt was the fifth-largest aid recipient behind Afghanistan, Israel, Pakistan, and Haiti, respectively. In the past decade, overall U.S. assistance to Egypt has declined from \$2.1 billion in FY1998 to \$1.55 billion in FY2010 owing to a gradual reduction in economic aid. In July 2007, the Bush Administration signed a 10-year Memorandum of Understanding (MOU) with Israel to increase U.S. military assistance from \$2.4 billion in FY2008 to over \$3 billion by 2018. Egypt received no corresponding increase in U.S. military aid; instead, the Bush Administration pledged to continue to provide Egypt with \$1.3 billion in military aid annually, the same amount it has received annually since 1987. Unlike with Israel and Jordan, the Bush Administration did not sign a bilateral MOU with the Egyptian government.<sup>4</sup> Congress typically earmarks foreign assistance for Egypt in the foreign operations appropriations bill. For FY2012, the Obama Administration has requested \$1.551 billion in total U.S. aid to Egypt.

### Economic Aid

The United States has significantly reduced economic aid to Egypt over the last decade. There are several reasons for the reduction in U.S. assistance. Overall, U.S. economic aid to Egypt has been trending downward due to a 10-year agreement reached in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3:2 ratio that long prevailed in the overall levels of U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40 million reduction for Egypt), but Egypt did not receive an increase in military assistance. Thus, the United States reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008.<sup>5</sup> For FY2012, the Administration is requesting \$250 million in ESF for Egypt.

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<sup>4</sup> A year after the 2007 U.S.-Israel Memorandum of Understanding (MOU), the U.S. and Jordanian governments reached an agreement whereby the United States will provide a total of \$660 million in annual foreign assistance to Jordan over a five-year period. Under the terms their non-binding MOU, this first-of-its-kind deal commits the United States, subject to future congressional appropriations and availability of funds, to providing Jordan with \$360 million per year in Economic Support Funds (ESF) and \$300 million per year in Foreign Military Financing (FMF).

<sup>5</sup> In FY2003, Egypt, along with Israel and several other governments in the region, received supplemental assistance as part of the FY2003 Iraq Emergency Supplemental Appropriations Act (P.L. 108-11). It included \$300 million in ESF for Egypt, which could have been used to cover the costs of up to \$2 billion in loan guarantees. The loan guarantees were to be issued over three years.



## Funding for Democracy Promotion

Each year, a portion of USAID-managed economic aid is spent on democracy promotion programs in Egypt, a policy that has been a lightning rod for controversy over the last seven years. On principle, the Mubarak government had rejected U.S. assistance for democracy promotion activities, though it had grudgingly accepted a certain degree of programming. On the other hand, democracy activists believe that the U.S. government, particularly during the Obama Administration and before the revolution, had not been aggressive enough in supporting political reform in Egypt.

The degree of U.S. direct support for civil society groups had been a major issue. The Mubarak government had staunchly opposed foreign support to independent civic groups that demand government accountability, as well as civic groups that have not received government approval. During the Bush Administration, policymakers and Members of Congress directed some amounts of Economic Support Funds toward direct support to Egyptian non-governmental organizations (NGOs). However, some experts note that only a small proportion of USAID's democracy and governance (D&G) funds are spent on independent Egyptian groups and an even smaller proportion to groups that do not receive approval from the Egyptian government. The vast majority of USAID D&G assistance goes to Government of Egypt-approved consensual, government-to-government projects.<sup>6</sup>

Most importantly, in FY2005, Congress directed that "democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]," language which remained in annual foreign operations appropriations legislation until FY2009 (see below).<sup>7</sup> Egypt claims that U.S. assistance programs must be jointly negotiated and cannot be unilaterally dictated by the United States. P.L. 111-117, Consolidated Appropriations Act, FY2010, contains general legislative language on the use of U.S. funds to NGOs, stating in section 7034:

With respect to the provision of assistance for democracy, human rights and governance activities in this Act, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the government of any foreign country.<sup>8</sup>

As overall ESF aid to Egypt has decreased, so too has U.S. democracy assistance. For FY2009, the Bush Administration unilaterally cut overall economic aid to Egypt by more than half, requesting \$200 million in ESF. Therefore, because U.S. economic assistance is divided among several sectors (health, education, economic development, and democracy promotion), fewer funds were available in FY2009 for D&G aid (\$20 million instead of previous appropriations of

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<sup>6</sup> CRS conversation with Tamara Cofman Wittes, Director, Middle East Democracy and Development Project, Brookings Institution, September 1, 2009.

<sup>7</sup> Congress sought to ensure that U.S. foreign assistance for Egypt was being appropriately used to promote reform. In conference report (H.Rept. 108-792) language accompanying P.L. 108-447, the FY2005 Consolidated Appropriations Act, conferees specified that "democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]. The managers intend this language to include NGOs and other segments of civil society that may not be registered with, or officially recognized by, the GoE. However, the managers understand that the GoE should be kept informed of funding provided pursuant to these activities."

<sup>8</sup> P.L. 111-117. The conference report accompanying the act notes, "the requirements of section 7034(m)(4) of this Act shall apply with respect to the provision of assistance to Egyptian NGOs."

up to \$50 million). P.L. 111-117, the Consolidated Appropriations Act, FY2010, provided \$25 million in economic aid for democracy promotion (or 10% of total economic aid).

Perhaps in order to ease tension with the Egyptian government, the Obama Administration has reduced funding for U.S.-based NGOs operating in Egypt while increasing funding for state-approved and unregistered Egyptian NGOs (see **Table 1** below). Since FY2009, the Administration has used other State Department aid accounts, such as the Middle East Partnership Initiative (MEPI) and the Human Rights and Democracy Fund (HRDF), to support Egyptian and international NGOs. In October 2009, USAID's Inspector General issued an audit of the agency's democracy and governance activities in Egypt. Among other findings, the audit concluded that

The impact of USAID/Egypt's democracy and governance activities has been limited based on the programs reviewed. In published reports, independent nongovernmental organizations ranked Egypt unfavorably in indexes of media freedom, corruption, civil liberties, political rights, and democracy. Egypt's ranking remained unchanged or declined for the past 2 years, and the impact of USAID/Egypt's democracy and governance programs was unnoticeable in indexes (sic) describing the country's democratic environment.... The Government of Egypt signed a bilateral agreement to support democracy and governance activities (page 5), but it has shown reluctance to support many of USAID's democracy and governance programs and has impeded implementers' activities. Despite the spirit with which the U.S. Congress espoused the civil society direct grants program, the Government of Egypt's lack of cooperation hindered implementers' efforts to begin projects and activities through delays and cancellations.<sup>9</sup>

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<sup>9</sup> USAID, *Audit of USAID/Egypt's Democracy and Governance Activities (Audit Report No. 6-263-10-001-P)*, October 27, 2009.

**Table I. U.S. Direct Funding to International and Egyptian NGOs**

(Amounts in U.S. dollars)

	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011 Request</b>
<b>Democracy and Governance</b>				
<b>Total</b>	<b>54,850,315</b>	<b>23,539,643</b>	<b>29,000,000</b>	<b>25,000,000</b>
USAID	54,800,000	20,000,000	25,000,000	25,000,000
DRL	0	2,057,000	2,000,000	n/a
MEPI	50,315	1,482,643	2,000,000	n/a
<b>Civil Society</b>				
<b>Total</b>	<b>27,900,315</b>	<b>9,539,643</b>	<b>25,000,000</b>	<b>21,000,000</b>
USAID	27,850,000	6,000,000	21,000,000	21,000,000
DRL	0	2,057,000	2,000,000	n/a
MEPI	50,315	1,482,643	2,000,000	n/a
<b>Egyptian unregistered orgs</b>	<b>925,286</b>	<b>1,482,643</b>	<b>2,000,000</b>	<b>n/a</b>
USAID	925,286	0	0	n/a
MEPI	0	1,482,643	2,000,000	n/a
<b>Egyptian registered orgs</b>	<b>5,669,529</b>	<b>5,000,000</b>	<b>10,000,000</b>	<b>n/a</b>
USAID	5,619,214	5,000,000	10,000,000	n/a
MEPI	50,315	0	0	
<b>U.S. registered groups</b>	<b>5,801,846</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>TBD</b>
USAID	5,801,846	1,000,000	1,000,000	
<b>U.S. unregistered groups</b>	<b>15,503,654</b>	<b>2,057,000</b>	<b>2,000,000</b>	<b>TBD</b>
USAID	15,503,654	0	0	

Source: U.S. State Department, Bureau of Near Eastern Affairs.

## U.S.-Egyptian Science, Business, and Technological Cooperation

President Obama's 2009 speech in Cairo envisioned greater U.S. collaboration with Middle Eastern and Muslim-majority nations. As a result, the Administration has created several new small-scale initiatives, dubbed the Cairo Initiatives, to promote science, business, and technical cooperation with certain countries in the region, notably Egypt. In December 2010, the United States launched the President's Global Innovation through Science and Technology (GIST) program in Alexandria, Egypt. Egypt also is a significant participant in the Administration's Global Entrepreneurship program (GEP), a USAID-funded program designed to assist entrepreneurs in Muslim communities around the world. Several GEP pilot programs have been launched in Egypt to train entrepreneurs and assist them with access to foreign investment. In January 2011, a GEP delegation traveled to Egypt to meet with Egyptian businessmen and learn of new investment opportunities. According to the U.S. State Department's Senior Advisor for

Global Entrepreneurship Steven Koltai, “regional investments in economic reform and human and capital infrastructure in Egypt provide a strong foundation for entrepreneurs and investors, both local and international.”

In 2010, the Overseas Private Investment Corporation (OPIC) invested \$100 million in a fund managed by a subsidiary of Egyptian private equity firm Citadel Capital. The investment was touted by the Administration as part of President Obama’s outreach to the Muslim world and U.S. efforts to spur entrepreneurship.

In addition, the Administration has proclaimed that 2011 is the year of U.S.-Egypt science. One of President Obama’s science envoys, Dr. Ahmed Zewail, a Nobel prize-winning Egyptian American, has visited Egypt several times. In May 2010, the United States announced that the U.S.-Egypt Science and Technology Joint Fund will double its annual grants (from \$4 million to \$8 million) for Egyptian and American scientific collaboration.

## **Military Aid**

The Administration has requested \$1.3 billion in FMF for Egypt in FY2012. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts.<sup>10</sup> According to U.S. and Egyptian defense officials, approximately 30% of annual FMF aid to Egypt is spent on new weapons systems, as Egypt’s defense modernization plan is designed to gradually replace most of Egypt’s older Soviet weaponry with U.S. equipment.<sup>11</sup> That figure is expected to decline over the long term due to the rising costs associated with follow-on maintenance contracts. Egyptian military officials have repeatedly sought additional FMF funds to offset the escalating costs of follow-on support. They point out that as costs rise, static aid appropriations amount to a reduction in net assistance.

U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank is one of the cornerstones of U.S. military assistance to Egypt. A coproduction program began in 1988. Egypt plans to acquire a total of 1,200 tanks. Under the terms of the program, a percentage of the tank’s components are manufactured in Egypt at a facility on the outskirts of Cairo and the remaining parts are produced in the United States and then shipped to Egypt for final assembly. General Dynamics of Sterling Heights, MI, is the prime contractor for the program. Although there are no verifiable figures on total Egyptian military spending, it is estimated that U.S. military aid covers as much as 80% of the Defense Ministry’s weapons procurement costs.<sup>12</sup>

Egypt also receives Excess Defense Articles (EDA) worth hundreds of millions of dollars annually from the Pentagon.<sup>13</sup> Egyptian officers participate in the International Military and

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<sup>10</sup> According to U.S. defense officials, Egypt only allocates the minimum amount of FMF funds necessary for follow-on maintenance, resulting in inadequate support for weapon system sustainment.

<sup>11</sup> According to a 2006 Government Accountability Office report, over the life of Egypt’s FMF program, through August 2005, Egypt had purchased 36 Apache helicopters, 220 F-16 aircraft, 880 M1A1 tanks, and the accompanying training and maintenance to support these systems, among other items. See Government Accountability Office, “Security Assistance: State and DOD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals,” GAO-06-437, April 2006.

<sup>12</sup> According to one source, U.S. military assistance pays for about a third of Egypt’s overall defense budget each year. See, “Three Decades of Weapons, Training for Egypt Keep U.S. in Loop,” *Bloomberg*, February 2, 2011.

<sup>13</sup> According to the Defense Security Cooperation Agency (DSCA), past EDA sales and grant transfers have included two PERRY class and two KNOX frigates, numerous HAWK parts, mine rakes, helicopter spare parts, assorted (continued...)

Education Training (IMET) program<sup>14</sup> (\$1.4 million requested for FY2011) in order to facilitate U.S.-Egyptian military cooperation over the long term. IMET assistance makes Egypt eligible to purchase training at a reduced rate. Bright Star is a multinational training exercise co-hosted by the United States and Egypt that helps foster the interoperability of U.S. and Egyptian forces and provides specialized training opportunities for U.S. Central Command Forces (CENTCOM) in the Middle East. Eagle Salute is a U.S.-Egyptian joint maritime training exercise conducted annually in the Red Sea.

In addition to large amounts of annual U.S. military assistance, Egypt benefits from certain aid provisions that are available to only a few other countries. Since 2000, Egypt's FMF funds have been deposited in an interest bearing account in the Federal Reserve Bank of New York and have remained there until they are obligated. By law (P.L. 106-280), Congress must be notified if any of the interest accrued in this account is obligated. Most importantly, Egypt is allowed to set aside FMF funds for current year payments only, rather than set aside the full amount needed to meet the full cost of multi-year purchases. Cash flow financing allows Egypt to negotiate major arms purchases with U.S. defense suppliers.

## **Recent Arms Sales Notifications**

In FY2010, the Defense Security Cooperation Agency (DSCA) notified Congress of the following proposed arms sales to Egypt using FMF funds:

- July 2, 2010—40 Skyguard AMOUN Solid-State Transmitters to support the upgrade of the Skyguard-SPARROW Launcher/Illuminator System; prime contractor is Raytheon Integrated Defense Systems in Tewksbury, MA; estimated value: \$77 million.
- July 2, 2010—Continuation of technical services in support of four OLIVER HAZARD PERRY and two KNOX CLASS Frigates; prime contractor is VSE Global in Alexandria, VA; estimated value: \$210 million.

## **U.S.-Egyptian Trade**

Egypt is the 46<sup>th</sup>-largest trading partner of the United States, which has an annual trade surplus with Egypt amounting to \$4.5 billion in 2010. The United States is Egypt's largest bilateral trading partner. Egypt is one of the largest single markets worldwide for American wheat and corn and is a significant importer of other agricultural commodities, machinery, and equipment. The United States also is the second-largest foreign investor in Egypt, primarily in the oil and gas sector. Since the mid-1990s, Egyptian officials have sought to negotiate a Free Trade Agreement (FTA) with the United States, claiming that an Egyptian-American FTA could significantly boost Egypt's economy. However, due to an array of concerns both Egypt-specific (human rights, intellectual property) and macroeconomic, an Egyptian-American FTA has not moved forward.

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armored vehicles (M60 tanks and M113 APCs) and various types of munitions.

<sup>14</sup> Egyptian officers participating in IMET study and train at the Naval War College in Newport, Rhode Island, and National Defense University at Fort McNair in Washington, DC.

In 1996, Congress authorized the creation of Qualified Industrial Zones (QIZ) in order to entitle goods jointly produced by Israel and either Jordan or Egypt to enter the United States duty free. In December 2004, Egypt finally reached an agreement with Israel to designate several QIZs in Egypt under the mandate of the U.S.-Israeli Free Trade Agreement. Goods produced in Egyptian QIZs allow Egyptian-made products to be exported to the United States duty-free if the products contain at least 10.5% input from Israel. Egypt would like to see this percentage reduced to around 8%, which is the case with the U.S.-Jordanian-Israeli QIZ agreement. Most products exported from Egyptian QIZs are textiles, and products manufactured in QIZs now account for one-third of Egyptian exports to the United States.

**Table 2. Recent U.S. Foreign Assistance to Egypt**

(\$ in millions)

Fiscal Year	Economic	Military	IMET	Total
1948-1997	23,288.6	22,353.5	27.3	45,669.4
1998	815.0	1,300.0	1.0	2,116.0
1999	775.0	1,300.0	1.0	2,076.0
2000	727.3	1,300.0	1.0	2,028.3
2001	695.0	1,300.0	1.0	1,996.0
2002	655.0	1,300.0	1.0	1,956.0
2003	911.0	1,300.0	1.2	2,212.2
2004	571.6	1,292.3	1.4	1,865.3
2005	530.7	1,289.6	1.2	1,821.5
2006	490.0	1,287.0	1.2	1,778.2
2007	450.0	1,300.0	1.3	1,751.3
2008	411.6	1,289.4	1.2	1,702.2
2009	250.0	1,300.0	1.3	1,551.3
2010	250.0	1,300.0	1.9	1,551.9
2011 Request	250.0	1,300.0	1.4	1,551.4
<b>Total</b>	<b>30,820.8</b>	<b>39,211.8</b>	<b>43.0</b>	<b>70,075.6</b>

**Table 3. U.S. Foreign Assistance to Egypt, 1946-1997**

(millions of dollars)

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167.3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1
1981	1,681.2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.3	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9
1983	2,332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—



Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
<b>Total</b>	<b>45,669.4</b>	<b>4,550</b>	<b>17,803.5</b>	<b>27.3.0</b>	<b>11.2</b>	<b>80.7</b>	<b>82.8</b>	<b>2,620.7</b>	<b>15,923.8</b>	<b>4,114.3</b>	<b>455.1</b>

**Notes:** Totals may not add due to rounding. No U.S. aid programs for years 1947, 1949, 1950, 1968, 1969, 1970, and 1971. P.L. 480 II Grant for 1993 includes \$2.1 million in Sec. 416 food donations.

TQ = Transition Quarter; change from June to September fiscal year

\* = less than \$100,000

I.M.E.T. = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

D. A. = Development Assistance

ESF = Economic Support Funds

P.L. 480 I = Public Law 480 (Food for Peace), Title I Loan

P.L. 480 II = Public Law 480 (Food for Peace), Title II Grant

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