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Egypt: Background and U.S. Relations

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Summary

This report provides an overview of the key issues for Congress related to Egypt and U.S. foreign aid to Egypt.

The United States has provided significant military and economic assistance to Egypt since the late 1970s. Successive U.S. Administrations have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running cooperation with the Egyptian military and on sustaining the 1979 Egyptian-Israeli peace treaty.

U.S. policymakers are now debating complex questions about the future of U.S.-Egypt relations, and these debates and events in Egypt are shaping consideration of appropriations and authorization legislation in the 114th Congress.

Between 1948 and 2015, the United States provided Egypt with \$76 billion in bilateral foreign aid (calculated in historical dollars—not adjusted for inflation), including \$1.3 billion a year in military aid from 1987 to the present. This report discusses the conditions governing the release of these funds. All U.S. foreign aid to Egypt (or any foreign recipient) is appropriated and authorized by Congress. All U.S. military aid to Egypt finances the procurement of weapons systems and services from U.S. defense contractors.

P.L. 114-113, the Consolidated Appropriations Act, 2016, provides a total of \$1,456.3 billion in military and economic aid to Egypt. It contains conditions on U.S. assistance to Egypt that are similar to what Congress included in the FY2015 appropriations act (P.L. 113-235), including an executive branch national security waiver in Section 7041(a)(3)(B), which, if exercised, would remove the limits imposed by Congress preventing the provision of assistance to Egypt until its government met democracy-based conditions.

For FY2017, the President has requested that Congress appropriate \$1.3 billion in military assistance for Egypt. The President also is asking Congress to provide \$150 million in economic aid.

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Overview

In 2016, President Abdel Fatah al Sisi and his military backers have continued to pursue their stated goals of relieving economic woes, rooting out corruption, and restoring domestic security. Opposition Islamist and secular political forces view Sisi's regime differently; they portray the Sisi government as the reconstitution of an authoritarian order that employs brutal tactics to quash dissent while rhetorically paying heed to the themes (corruption,¹ inequality, and indignity) that sparked the 2011 uprising. Public political activism has died down considerably since the military's ouster of former president Mohammed Morsi in July 2013. This may be due to both a crackdown against dissent (unauthorized public protests have been banned since 2013) and public fatigue from domestic instability.

The Egyptian government's attempt to spark economic growth in order to stave off public unrest has had mixed results. On the one hand, Egypt has secured billions of dollars in aid from Arab Gulf States and, since the government subsidizes fuel, the budget has benefitted from lower oil prices. In 2015, Egypt's economy grew at its fastest rate (4.2%) since 2010. On the other hand, the government is facing a shortage of dollar-denominated currency,² which is affecting its ability to import food and fuel.³ Tourism receipts, a major source of foreign exchange,⁴ declined by 15% in 2015, as concern over terrorism, particularly in the Sinai, has deterred foreign visits.⁵ Revenue from the Suez Canal, another major source of foreign exchange, also declined by 5% in 2015, despite a multi-billion dollar investment in its expansion. Egypt also has been affected by global economic problems. European nations, Egypt's primary trading partners, have not increased their investments in Egypt to match previous years.

In the international and regional arena, Egypt has begun to play a more active diplomatic role than in previous years. It is one of ten non-permanent members of the United Nations Security Council (its term ending in 2017) and has played a key role in trying to broker a unity government in Libya. Nevertheless, it has played a minimal role in countering the Islamic State in Syria and Iraq, more focusing more on countering terrorist threats emanating from Sinai-based groups, such as Sinai Province of the Islamic State (SP).

Overall, the return of authoritarian rule that began with the military's July 2013 takeover has left U.S. policymakers in a quandary. President Obama and members of his Administration continue to express the view that authoritarian governance and the denial of basic human and political rights create conditions conducive to the growth of violent extremism. On the other hand, maintaining a partnership with the government of Egypt is still viewed as important for goals of regional stability and security. Egypt's government describes its Islamist adversaries as terrorists and portrays U.S. attempts to dictate terms or impose conditions related to Egypt's internal affairs

¹ In January 2016, the head of an Egyptian anti-corruption government agency, Hesham Geneina, was found guilty of exaggerating state corruption levels. According to *Jane's*, "Geneina's investigation shows the government is prioritizing military and judicial vested interests above any serious effort to tackle institutional corruption." See "Egyptian Military Interests Taking Precedence Over Tackling Corruption," *Jane's Country Risk Daily Report*, January 15, 2016.

² As of December 2015, Egypt's net international foreign currency reserves stood at \$16.4 billion, or enough to cover three months-worth of imports.

³ Egypt is the world's largest importer of grain (accounting for nearly 7% of global wheat imports).

⁴ In 2014, Egypt earned \$7.2 billion in tourism revenues. In 2010, it had earned \$12.5 billion. See, "Egypt sees Tourist Returns down 10 pct after Plane Crash, Eyes Gradual Recovery," *Reuters*, December 8, 2015.

⁵ After the explosion of Metrojet Flight 9268 on October 31, 2015, Britain, Russia, and other countries suspended flights to Sharm al Sheikh.

as naïve, malign, or both.⁶ As an alternative to its traditional reliance on the United States, Egypt's rulers have welcomed the support of like-minded Arab governments in the Gulf region who view political Islam as an existential threat to their systems of governance, as well as Russia and China.

Domestic Politics

Formally, Egypt is a republic, governed by a constitution⁷ that was approved in a national referendum in January 2014. In June 2014, Sisi (former Field Marshal and Minister of Defense) was elected president, garnering 96.91% of the vote amidst a political atmosphere that the Obama Administration and some foreign observers termed “restrictive.”⁸

Parliamentary elections were held in late 2015 for Egypt's House of Representatives, its single-chamber legislature comprised of 596 members.⁹ Voter turnout was officially 28% and, according to Democracy International, which observed the elections, “Overall, the wider political climate of repression prevented these elections from meeting international standards or being considered democratic. There are greater restrictions on the rights of Egyptians today than at the time of the last legislative elections.”¹⁰ The Egyptian Ministry of Foreign Affairs has maintained that the elections were a success, noting that “Egypt has finally elected and convened its legislature after several years of turmoil, through a transparent, free and fair electoral process, thereby completing the final phase of its political transition. This demonstrates to the world that Egypt is on the right track, building and consolidating its democratic institutions and moving towards increased political stability.”¹¹ The U.S. State Department issued a statement on the parliamentary elections, saying, “On conclusion of Egypt's parliamentary elections, the United States looks forward to the seating of the new parliament and to our continued engagement with the Egyptian Government and people. We note preliminary statements by domestic and international observers that Egypt's Higher Electoral Commission administered the elections professionally and in accordance with Egyptian laws, although we remain concerned about low voter turnout and limited participation by opposition parties.”¹²

Observers have characterized parliament as dominated by Sisi loyalists.¹³ His supporters have coalesced into an alliance of 400 members called “Support Egypt.” Parliamentarians with Islamist

⁶ Open Source Center, “Egypt Criticizes US Diplomat Over ‘Meddling In Internal Affairs,’” Document ID# IML2015062057743493, Cairo MENA (in English), June 20, 2015.

⁷ An unofficial English translation of the constitution is available at <http://www.sis.gov.eg/Newvtr/Dustor-en001.pdf>.

⁸ The White House, Office of the Press Secretary, Statement by the Press Secretary on the Presidential Election in Egypt, June 4, 2014.

⁹ Of those 596 seats, 448 seats are elected via an individual candidate system while 120 are elected via a party list system. The remaining 28 seats are allocated via presidential appointment in order to increase the representation of Coptic Christians and women.

¹⁰ Democracy International, “Preliminary Statement: Egypt's 2015 House of Representatives Elections,” December, 2015.

¹¹ Open Source Center, “Egyptian Writer Says Criticism of Recent Elections 'Baseless', Denies Opposition Parties Excluded” Egyptian Ministry of Foreign Affairs Blog, Open Source Center Summary, Document ID# LIL2016011459512681, January 14, 2016.

¹² U.S. State Department, “Egyptian Parliamentary Elections,” Press Statement by Mark C. Toner, Deputy Department Spokesperson, December 4, 2015.

¹³ According to Michele Dunne of the Carnegie Endowment for International Peace, “Some 75 retired army or police generals will account for about 13% of seats in the new parliament; that's half again as many as in 2010 and 10 times as many as were elected in 2012. Business people will take about 25% of the seats, up from the 20% they occupied in (continued...) ”

leanings are represented by 12 lawmakers who hail from the Salafist Nour Party. The Muslim Brotherhood has been outlawed and its members banned from participation in politics.

One of parliament's first orders of business (per the constitution) is to review many of the decrees made by the executive in its absence (parliament had been dissolved since June 2012). On January 17, 2016, by a vote of 457 votes to 24, parliament approved the anti-terrorism law, which details sentences for various terrorism-related crimes,¹⁴ shields the police from penalties for "proportionate use of force," and fines journalists for contradicting the government's version of any terrorist attack.¹⁵ When the law was initially decreed by President Sisi in August 2015, a spokesperson for the U.S. State Department remarked, "We are concerned that some measures in Egypt's new anti-terrorism law could have a significant detrimental impact on human rights and fundamental freedoms, including due process safeguards, freedom of association, and freedom of expression."¹⁶

Concerns over Human Rights Violations

Certain practices of President Sisi's government and the security apparatus have been contentious; many Egyptians and foreign observers have accused the government of committing serious abuses of human rights against a broad spectrum of opponents, both secular and Islamist. President Sisi has at times publicly apologized for police abuses against citizens and sexual assaults against Egyptian women. The ongoing crackdown against dissent may have come not only with a significant human cost, but also at a sizeable cost to the country's international reputation, particularly in the West. Many observers had hoped that the 2011 uprising against Mubarak would change Egypt's human rights trajectory for the better.

In June 2015, the State Department released its *Country Reports on Human Rights Practices for 2014*. The report notes that in Egypt, "The most significant human rights problems were excessive use of force by security forces, including unlawful killings and torture; the suppression of civil liberties, including societal and government restrictions on freedoms of expression and the press and the freedom of peaceful assembly and association; and limitations on due process in trials."¹⁷

A number of international human rights organizations have reported on human rights abuses reportedly perpetrated by the Egyptian government, including:

- Organizations such as Amnesty International and Human Rights Watch, which have recorded more than 100 cases of what they call death by "neglect" in prisons over the past two years.¹⁸
- Freedom House, which in 2015 rated Egypt as "Not Free" due to "the complete marginalization of the political opposition; state surveillance of electronic

(...continued)

2010 and the 15% in 2012." "Egypt Now Looks a Lot Like It Did in 2010, Just Before 2011 Unrest," *Wall Street Journal*, December 16, 2015.

¹⁴ This includes sentences of five to seven years in prison for anyone propagating ideas and beliefs calling for the use of violence via social media or other mediums.

¹⁵ "Egypt's Parliament endorses Controversial anti-terrorism Law," *Reuters*, January 17, 2016.

¹⁶ U.S. State Department, Daily Press Briefing, August 18, 2015.

¹⁷ U.S. Department of State, Bureau of Democracy, Human Rights and Labor, *Country Reports on Human Rights Practices for 2014*. Available online at <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>

¹⁸ "Special Report: In Egypt, Jailed Islamists 'Dying of Neglect,'" *Reuters*, September 3, 2015.

- communications; public exhortations to report critics of the government to the authorities; and censorship, prosecution, and attacks on journalists.”¹⁹
- Reporters Without Borders, which ranked Egypt 158th out of 180 countries in its annual press freedom index, noting that “Egypt is now one of the world’s biggest prisons for journalists with at least (as of December 2015) 20 currently detained.”²⁰

Alleged Murder of Italian Student in Egypt

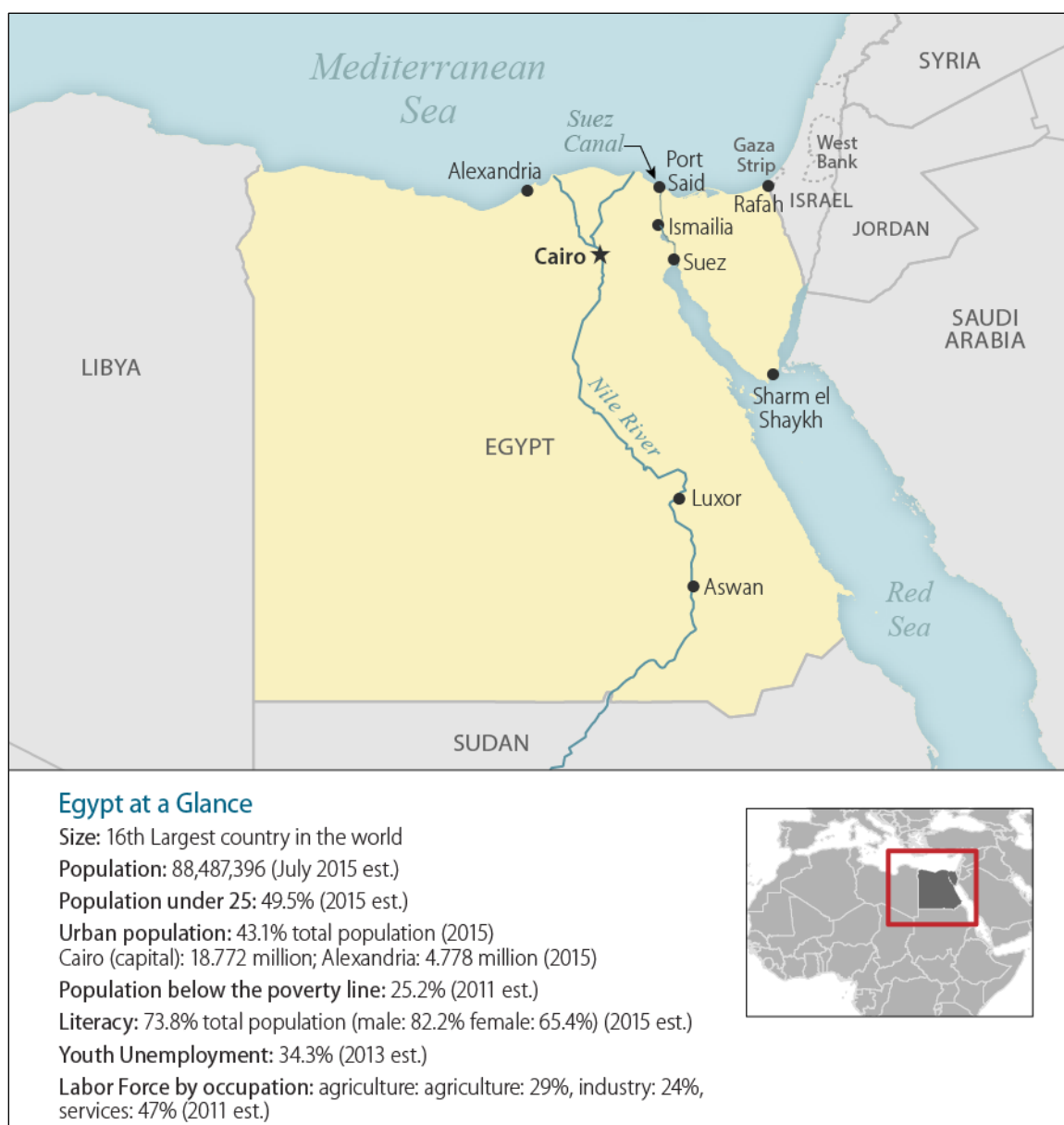
In February 2016, the body of Giulio Regeni, a Cambridge PhD student from Italy, was found on the outskirts of Cairo bearing signs of torture. Regeni had been missing for a week, and many observers have suspected that he was detained and beaten by internal security forces because of his alleged writings for a left-wing Italian newspaper and for his ties to labor unions. Regeni, who had published under a pseudonym, had criticized President Sisi directly in several pieces. Italy and Egypt have recently expanded economic ties, most notably after Italian energy company Eni discovered a super-giant gas field off the Egyptian coast in August 2015. According to one unnamed Italian official, “No one on the Italian side wants to question the deals that we were working on. [But] the Egyptian authorities have to be clear about the murder if they don’t want there to be a chill in the bilateral relationship.”²¹ Egyptian authorities have rejected allegations of involvement by security forces in the death of Regeni.

¹⁹ Testimony of Daniel Calingaert, “Repression and Instability: Egypt’s Downward Spiral,” Tom Lantos Human Rights Commission, Hearing on Human Rights in Egypt, November 4, 2015.

²⁰ “RSF Condemns Arrest of yet another Journalist In Egypt,” Reporters Without Borders, December 2, 2015.

²¹ “Brutal murder threatens relations between Egypt and Italy,” *Financial Times*, February 8, 2016.

Figure I. Egypt at a Glance



Source: CRS Graphics and CIA World Factbook

Terrorism in the Sinai Peninsula

One of the biggest concerns for Egyptian and regional stability over the past several years has been the Sinai Peninsula, where a mix of radicalized indigenous Bedouin Arabs, foreign fighters, and Palestinian militants from neighboring Gaza have formed terrorist cells and targeted both Egypt and Israel. Terrorists belonging to the Islamic State-affiliated Sinai Province (SP)²² have

²² This group was formerly known as *Ansar Bayt al Maqdis* (Supporters of the Holy House or Partisans of Jerusalem). It emerged after the Egyptian revolution of 2011 and affiliated with the Islamic State in 2014. Estimates of its (continued...)

repeatedly attacked military bases and police checkpoints, killing hundreds of Egyptian soldiers. Egypt has declared a state of emergency in northern Sinai, where most of the attacks take place.

As casualties mount from continued Sinai Province attacks, many observers are calling into question the overall Sinai counterterrorism strategy of the Sisi administration. The military claims that it is gaining ground against militants by increasing the army's troop presence, closing smuggling tunnels to Gaza,²³ and engaging the local population. In September 2015, the Egyptian Armed Forces, with Israeli permission, sent two divisions, special forces, and air support into northern Sinai as part of Operation "Retribution for the Martyrs." Critics charge that year after year, authorities revert to the same responses against Sinai-based militancy: The military launches a major operation in response to an attack, killing some militants but also causing collateral damage and thus angering the local population. The operation concludes with the withdrawal of the regular armed forces, leaving more lightly armed military police to secure the peninsula's vast, rugged terrain.

Russian Passenger Jet Crash in the Sinai

On October 31, 2015, a Russian passenger jet (Metrojet Flight 9268) exploded in mid-air over the Sinai Peninsula, killing all 224 passengers aboard. The Egyptian government has been circumspect over the cause of the crash, while several foreign governments, including the United States, have strongly suggested that the detonation of a hidden "improvised explosive device" most likely brought down the flight. Sinai Province, the Islamic State's Egyptian affiliate, has claimed responsibility for the crash, saying it was in retaliation for Russia's military deployment to Syria.

The Metrojet bombing may both harm Egypt's tourism sector and undermine government claims of success in countering terrorism. Tens of thousands of Russian and European tourists were evacuated from various beach resorts in Sharm al Sheikh and tourist numbers have remained relatively low since, crippling a tourist industry that had already been under strain.

Many observers assert that, while an increased Egyptian military presence in the Sinai is necessary to stabilize the area, military means alone are insufficient. These critics argue that force should be accompanied by policies to reduce the appeal of anti-government militancy by addressing local political and economic grievances. The population of northern Sinai predominately consists of tribal Bedouin Arabs—approximately 370,000. Sinai Province tries both to woo disaffected tribal youth to their ranks and to terrorize tribal leaders who cooperate with the Egyptian government. For its part, the Egyptian military needs the cooperation of tribes in combatting Sinai Province, but a discernible and historical lack of trust between tribes and the state hinders more robust cooperation.

(...continued)

numerical composition range from 500 to 1,000, and the group has displayed various pictures on social media of its weaponry, specifically man-portable air defense systems (MANPADS) such as the 9K338 Igla-S and Kornet anti-tank guided missile (ATGM) systems. See, "Analysis: Sinai Militants display Igla-S, Kornet Missiles," *Jane's Defence Weekly*, September 16, 2015.

²³ According to one report, only about 20 of 250 smuggling tunnels from Egypt to Gaza are still operating due to the Egyptian military's flooding of the tunnels. See, "As Egypt Floods Gaza Tunnels, Smugglers Fear an End to Their Trade," *New York Times*, October 7, 2015.

Figure 2. Mounting Casualties in the Sinai

Source: Economist.com & Tahrir Institute for Middle East Policy, November 2015.

In general, Bedouin Arabs in the Sinai have complained that the state has neglected their areas, while authorities have tended to view tribal communities with suspicion over their involvement in smuggling. The Sinai smuggling trade (human trafficking, narcotics, and weapons) had been lucrative business for some Sinai residents before being disrupted by Israel's construction of a wall along its border with Egypt and Egypt's crackdown on tunnel smuggling along the Gaza border.²⁴

For decades, the Egyptian state has claimed to follow successive Sinai development plans.²⁵ However, Egyptian governance and development of the Sinai has been hampered by both public and private sector corruption. Prior to the 2011 revolution, successive Sinai governors and businessmen colluded to develop state-owned land, perpetuate monopolies in the area, and exclude the local population from benefitting from development projects.²⁶ In July 2015, the

Egyptian government claimed that it had spent \$600 million on water and agricultural development projects in the Sinai. Two months later, the entire cabinet resigned after the then-agricultural minister was accused of requesting and receiving bribes to legalize the purchase of state-owned land. If the Egyptian state were to effectively protect the local population, strengthen governance, and improve irrigation access, northern Sinai could benefit from the development of economic sectors like agriculture, fishing, mining, and eco-tourism.

Foreign Relations

Israel, Hamas, and Countering Underground Smuggling

Israeli-Egyptian relations have markedly improved since the 2013 ouster of former Egyptian President Mohammed Morsi. Israel had been apprehensive about the long-term prospect of an Islamist-governed Egypt, and while its relationship with Egypt's military is not without challenges,²⁷ the two sides maintain regular dialogue on defense and intelligence issues. In June

²⁴ "The General's Law in Sinai," *The Economist*, November 15, 2014.

²⁵ For a history of Sinai development, see "Egypt's Sinai Question," International Crisis Group, Middle East/North Africa Report Number 61, January 30, 2007.

²⁶ "The State of Sinai (II): Backyard for Business Bandits," *Al Akhbar*, August 22, 2012.

²⁷ Although Egypt and Israel have been at peace since 1979, their relationship is often characterized as a "cold peace." (continued...)

2015, Egypt appointed an ambassador (Hazim Khayrat) to Israel for the first time since 2012.²⁸ In the fall of 2015, Israel reopened its embassy in Egypt, four years after it was besieged by protestors. Haim Koren is Israel's current ambassador to Egypt.

Israel and Egypt share a common adversary in the Palestinian terrorist group Hamas, which Egypt accuses of aiding anti-government militants in the Sinai Peninsula.²⁹ Since it deposed President Morsi in July 2013, Egypt's military has attempted to more dramatically curb weapons smuggling to Gaza-based militants. It repeatedly claims to have destroyed tunnels, and it has taken the unprecedented steps of largely dismantling the town of Rafah along the Egypt-Gaza border and relocating it further from the border. Egypt hopes to create a "buffer zone," which it claims would dramatically curb underground weapons smuggling to Hamas.

The Egyptian Border Guards Forces (BGF), a unit within the Egyptian army permitted to operate near the Israeli-Egyptian-Gaza border,³⁰ is the primary defense force charged with curbing Hamas smuggling. BGF forces have flooded the tunnels with seawater, leaving the soil prone to collapse. Egypt also controls the Rafah border crossing into Gaza, the only non-Israeli-controlled entry way into the Strip, which it periodically closes for security reasons.

Libya

Egypt is a strong backer of Qadhafi-era retired general Khalifah Haftar, who in 2014 launched an armed campaign unauthorized by interim authorities dubbed "Operation Dignity" to evict Islamist militia groups from eastern Libya. Some Libyans view Egypt's backing of Haftar's campaign against extremist groups, other Islamists, and a coalition of western Libyans as an attempt to reassert authoritarian control and reverse the outcome of Libya's 2011 revolution. General Khalifah Haftar is the current leader of the Libyan National Army (LNA), which is nominally aligned with the Tobruk-based House of Representatives government in the east.

Egypt has supported the United Nations' efforts to form a unity government, known as the Government of National Accord (GNA), and has supported businessman Fayeze el Sarraj as prime minister. As the Tripoli- and Tobruk-based governments continue to disagree over the composition of the GNA, the future role of Egyptian-backed General Haftar is one of several points of contention between the two sides. Egypt is supporting General Haftar's bid for defense minister, and during a visit to the United States by Egyptian Foreign Minister Sameh Shoukry, Shoukry remarked, "We have to recognize that [Haftar's forces] are an important component . . . in the battle against expansion of the terrorists."³¹

(...continued)

According to one account, "Despite the new strategic cooperation, which largely occurs behind the scenes, Egyptian popular attitudes toward Israel remain overwhelmingly negative. Few Israelis visit Egypt, and those who do are often carefully watched by the security services, while the Egyptian government, social pressures, and popular hostility continue to impede Egyptian visits to Israel." See, Marc J. Sievers "Riding the Egyptian-Israeli Roller Coaster 2011–2015," *The Washington Institute*, Policy Notes #27, December 2015.

²⁸ Under former President Morsi, Egypt had recalled its ambassador to Israel in protest over Israel's 2012 military operations in Gaza.

²⁹ Shlomi Eldar, "Is Hamas working with Wilayat Sinai?," *Al Monitor Israel Pulse*, July 6, 2015.

³⁰ The Israeli-Egyptian peace treaty limits the number of soldiers that Egypt can deploy in the Sinai, among other things, subject to the parties' ability to negotiate changes to Egyptian deployments as circumstances necessitate. Egypt and Israel mutually agree upon any short-term increase of Egypt's military presence in the Sinai. Both sides coordinate with the Multinational Force of Observers (MFO), which monitors force deployments.

³¹ "Fight against ISIS in Libya must wait for a government there, Egypt says," *Washington Post*, February 9, 2016.

Egyptian officials have argued that terrorist violence emanating from Libya and directed against Egyptian citizens living and working there has compelled Egypt to militarily intervene in its neighbor's civil war.³² On February 15, 2015, Islamists allied with the Islamic State released a video in which 21 hostages, most of whom were Egyptian Coptic Christians, were beheaded on a beach near the central Libyan town of Sirte. The following morning, Egypt responded with air strikes against terrorist camps in Derna, another IS stronghold in eastern Libya.

The air strikes marked the first time that Egypt publicly acknowledged its intervention in Libya, although the United States government had previously acknowledged that Egypt and some Gulf Arab states have militarily supported Haftar's forces.³³ In August 2014, press reports speculated that Emirati fighter jets using Egyptian bases had conducted air strikes in Libya against militia positions around Tripoli's international airport. It is unclear whether or to what extent U.S. equipment may have been used in these or any other such operations.

The Gulf Arab Monarchies

Saudi Arabia, the United Arab Emirates (UAE) and other Gulf Arab monarchies have been strong proponents of President Sisi, and their financial aid has been critical in stabilizing Egypt's economy and national budget. Gulf states have injected billions of dollars into the economy and treasury, providing cash grants, concessional loans, and fuel imports. Since the ouster of former president Morsi in July 2013, Gulf states have provided government-to-government aid to Egypt, possibly as high as \$30 billion, with billions more coming in the form of private sector investment. Gulf states also have underwritten Egyptian military purchases of new hardware from Russia and France (see below). In December 2015, Saudi Arabia's Deputy Crown Prince and Defense Minister Mohammed bin Salman visited Egypt, where he pledged an additional \$8 billion in investments and oil products. A month later, Saudi Arabia and Egypt reached an agreement whereby Saudi Arabia would provide Egypt with more than \$3 billion in aid, including a \$1.5 billion loan to develop the Sinai, \$1.2 billion to finance oil purchases from Saudi Arabia, and a \$500 million grant for buying Saudi exports and products.³⁴

Despite this largesse, President Sisi has tried to balance Egypt's need for independence with the growing need of its Gulf allies for regional military support. In the spring of 2015, Saudi Arabia assembled an international coalition to support its military operations in Yemen, and Egypt (along with Pakistan) refrained from making any large scale commitment of ground troops, sending instead naval vessels instead to assist with a Saudi-led blockade and keep the Bab al Mandeb Strait open to international shipping. Egypt has agreed to membership in another Saudi-assembled international coalition to counter terrorism, though what specific role Egypt may play has yet to be determined.

Arms Agreements with France and Russia

Since coming to power, President Sisi has attempted to broaden Egypt's diplomatic relationships. Military procurement from non-U.S. sources has been one method Egypt has used to broaden its international ties. According to one Egyptian professor, "diversifying the sources of arms is an

³² "Egypt's Sisi 'reserves right of retaliation' after mass killing of Copts in Libya," *Al Ahram*, February 16, 2015.

³³ According to *Jane's*, Egypt has provided the Libyan National Army with Mig-21 fighter jets and armored vehicles. See, "Libyan National Army continues to receive Support from Egypt, UAE," *Jane's Defence Weekly*, May 28, 2015.

³⁴ "Saudi Arabia to Support Egypt with \$3 Billion of Loans, Grants," *Bloomberg*, January 4, 2016.

important issue for Egypt to free it from subordination to the United States.”³⁵ Since 2013, the Egyptian military, partially underwritten by the Gulf Arab states, has increased defense spending and reached new arms agreements with France and Russia.

In February 2015, Egypt purchased 24 Dassault Rafale multirole fighters, a frigate, and missiles from France in a deal worth an estimated \$5.9 billion (half of which is financed by French loans). France delivered the first three planes in July 2015. In 2014, France sold Egypt four naval corvettes and a frigate in a deal worth \$1.35 billion.

In the fall of 2015, France announced that it would sell Egypt two Mistral-class helicopter carriers (each carrier can carry 16 helicopters, four landing craft, and 13 tanks) for \$1 billion. In a separate deal with Russia, Egypt will purchase 46 Ka-52 Alligator helicopters which can operate on the Mistral-class helicopter carrier.

Other Russian-Egyptian arms sales include:

- Antey-2500 (S-300) anti-ballistic missile system (\$1 billion contract)
- 46 MiG-29 multirole fighters (\$2 billion contract)³⁶

Figure 3. Egypt's New Rafale Jetfighters



Source: Jane's Defence Weekly

U.S. Policy: How Important is Egypt?

Historically, Egypt has been an important country for U.S. national security interests based on its geography, demography, and diplomatic posture. Egypt controls the Suez Canal, through which 8% of all global maritime shipping passes annually. Moreover, Egypt expedites the passage of dozens of U.S. Naval vessels through the Canal, providing a strategic benefit to U.S. forces deploying to the Mediterranean Sea or Persian Gulf/Indian Ocean basin for time-sensitive operations.

Demographically, Egypt, with its population of 89.9 million, is by far the largest Arab country, and by 2050 its population may exceed 140 million.³⁷ Although it may not play the same type of leading political or military role in the Arab world as it has in the past, Egypt still has significant “soft power.” The Arab League is based in Cairo, as is Al Azhar University, which claims to be the oldest university still functioning and has symbolic importance as a leading source of Islamic scholarship. Additionally, Egypt’s 1979 peace treaty with Israel remains one of the single most significant diplomatic achievements for the promotion of Arab-Israeli peace. While people-to-people relations remain cold overall, Israel and the military-backed Egyptian government that has been in power since July 2013 have increased their cooperation in common cause against Islamist militants and instability in the Sinai Peninsula and Gaza Strip.

³⁵ Open Source Center, “Egyptian Military Experts Hail Delivery of French Rafale Jets, Say Deal Ends 'Subordination' to US,” Document ID# IMR2015072244574979, OSC Summary, July 21, 2015.

³⁶ “Egypt reportedly to buy 46 MiG-29s,” *Jane's Defence Weekly*, May 27, 2015.

³⁷ “The Too Fertile Crescent,” *The Economist*, June 6, 2015.

However, some U.S. policymakers may view Egypt as less strategically important to U.S. national security interests now than in previous eras. In recent years, U.S.-Egyptian military cooperation has lacked a signature cooperative endeavor. The last significant U.S.-Egyptian joint military operation was in 1991, when Egypt contributed 20,000 troops to Operation Desert Storm.³⁸ With the United States continually engaged in military operations against terrorist groups across the broader Middle East, the U.S. military seeks partners that can provide intelligence, training, and counter-insurgency support. Analysts consider the Egyptian armed forces to be more oriented toward fighting in an interstate warfare context rather than an asymmetric one.

Moreover, although Israeli-Egyptian relations are strong, a lack of definitive resolution of or robust negotiations on the Israeli-Palestinian conflict has contributed to Egypt playing a less prominent diplomatic role than it once did. Although Egypt still actively serves as a broker between Palestinian factions and between Israel and Hamas, this role garners less global attention than it did during times of active peace negotiations.

The terrorist attacks of September 11, 2001 may have profoundly and negatively impacted how some U.S. policymakers view Egypt. Whereas the bilateral relationship had previously focused on promoting regional peace and stability, the 9/11 attacks reoriented U.S. policy, as Americans considered the possibility that popular disillusionment from authoritarianism might contribute to terrorism. Egypt has been a key element of this reorientation, as several Egyptian terrorists helped form the original core of Al Qaeda.³⁹ The Egyptian government has largely rejected the idea that its authoritarian governance has fostered transnational Islamist terrorism and has resisted increased U.S. calls for political reform in Egypt.

Egypt's role in the "Arab Spring" of 2011 briefly elevated the country toward the top of the U.S. foreign policy agenda, as officials tried to navigate a delicate transitional period that witnessed an existential power struggle between Islamists and the military. After a two-and-a-half year period of U.S. efforts to promote a democratic transition in Egypt, the apparent return of authoritarian rule that began with the military's July 2013 takeover has left U.S. policymakers in a quandary.

Administration Attempts to "Redefine" U.S.-Egyptian Relations

With the Obama Administration focused on Operation Inherent Resolve against the Islamic State in Iraq and Syria, and with the concluded nuclear agreement with Iran, Egypt has been less of a regional priority for the U.S. government. As Egypt continues to crack down on all forms of dissent, the Obama Administration and the Egyptian government have articulated competing views of how best to secure Egypt's stability.

Principles Versus Interests

In the last few years, Egypt has presented serious challenges to U.S. policymakers seeking to balance competing priorities. On one hand, the Obama Administration wants Egypt to move toward more democratic governance and a market-based economy to address the grievances of its relatively young population. On the other hand, Egypt's military, which has evolved little in terms of democratic practices and institutions since the end of Egypt's monarchy in 1952, remains the country's primary political actor. If the United States fully embraces the military, it risks alienating Egyptians striving for either liberal democracy or Islam-based governance. When the United States appears to emphasize democracy, Egypt's security apparatus tends to turn against it, accusing American diplomats of, among other things, supporting the Muslim Brotherhood, spreading neo-colonialism, and undermining Egypt's stability.

³⁸ In Operation Enduring Freedom in Afghanistan, Egypt contributed a field hospital at Bagram.

³⁹ The Egyptian national Mohamed Atta was one of the leaders of the 9/11 attacks and the Egyptian cleric Ayman al-Zawahiri remains the head of Al Qaeda worldwide.

The Obama Administration has attempted to balance these competing priorities by crafting a policy that continues strong military-to-military ties without condoning Egypt's crackdown against dissent.⁴⁰ Soon after the Egyptian military's ouster of former president Mohammed Morsi in July 2013, the Administration launched a lengthy review of U.S. foreign assistance policy toward Egypt.⁴¹ This review came amid questions about the legality of continued assistance to Egypt's government given U.S. law prohibiting assistance to any government whose duly elected leader is deposed by military coup or decree.

In order to demonstrate its disapproval of the Egyptian military's reassertion of power without cutting all military-to-military ties, the Administration announced in October 2013 that it would withhold the delivery of certain large-scale military systems (such as F-16s, Apache helicopters, Harpoon missiles, and M1A1 tanks) to the Egyptian government pending credible progress toward democracy.

For the year-and-a-half duration of the weapons suspension, U.S.-Egyptian military cooperation continued, though Egyptian officials repeatedly criticized the President's decision. Egypt also began broadening its defense ties with other countries. The Egyptian military signed new arms agreements with Russia (S-300) and France (Rafale Fighters). Although the Administration lifted the suspension on Apache helicopters, delivering them to Egypt in December 2014, Sisi expressed frustration with the weapons suspension, claiming in an interview that it sent a "negative indication to the public opinion that the United States is not standing by the Egyptians."⁴²

Major Shift in U.S. Assistance Policy

By the spring of 2015, as terrorist attacks against Egypt continued, some lawmakers called on the Administration to end its weapons suspension,⁴³ and the Administration responded with a significant change in U.S. policy. On March 31, 2015, after a phone call between President Obama and President Sisi, the White House announced that the Administration was releasing the deliveries of select weapons systems to Egypt that had been on hold since October 2013, and pledged to continue seeking \$1.3 billion in aid from Congress. However, the White House simultaneously announced that future military assistance to Egypt would be largely reformulated: "Beginning in fiscal year 2018...we will channel U.S. security assistance for Egypt to four categories – counterterrorism, border security, Sinai security, and maritime security – and for sustainment of weapons systems already in Egypt's arsenal."⁴⁴ In a separate National Security Council (NSC) press release, NSC Spokesperson Bernadette Meehan noted that:

⁴⁰ See, "Remarks of President Obama, Commencement Address," West Point, New York, May 28, 2014. The President's 2015 National Security Strategy also alludes to this balance between principles and interests, noting that "We will maintain strategic cooperation with Egypt to enable it to respond to shared security threats, while broadening our partnership and encouraging progress toward restoration of democratic institutions."

⁴¹ The White House, Office of the Press Secretary, Statement by President Barack Obama on Egypt, July 03, 2013.

⁴² "Exclusive: El-Sisi urges 'Arab ready force' to confront ISIS, questions if US 'standing by' Egypt," *Foxnews.com*, March 9, 2015.

⁴³ In February 2015, Representative Kay Granger, Chairwoman of the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs, wrote to President Obama stating that "They [the Egyptians] need these planes and other weapons immediately to continue the fight against ISIL and other terrorists threatening Egypt's security, but your Administration has refused to use the authority Congress provided you in law to provide Egypt these weapons."

⁴⁴ The White House, Office of the Press Secretary, Readout of the President's Call with President al-Sisi of Egypt, March 31, 2015.

At the same time, the President has decided to modernize the U.S.-Egypt military assistance relationship. First, beginning in fiscal year 2018, we will discontinue Egypt's use of cash flow financing (CFF) – the financial mechanism that enables Egypt to purchase equipment on credit. By ending CFF, we will have more flexibility to, in coordination with Egypt, tailor our military assistance as conditions and needs on the ground change.⁴⁵

To date, there has been relatively muted public discussion of the President's proposed policy changes. According to one analyst, "In Washington, Egypt's cash-flow financing had lost support from both parties and is not likely to be reinstated no matter who moves into the White House in 2017."⁴⁶ Others have blamed President Obama for hurting overall U.S. Egyptian-relations by announcing a future end for CFF. According to one observer, "Ironically, President Obama may have thought his phone call to Cairo announcing the release of weapons would turn a new page in a rocky relationship. But by coupling that decision with the cancellation of a financing scheme that was a signal of Egypt's special relationship with Washington, Obama might have closed the book on any chance for closer U.S.-Egypt ties until a new president takes another look at this old alliance."⁴⁷

Latest Policy Developments

During an August 2015 "strategic dialogue" between high level U.S. and Egyptian officials in Cairo, Secretary of State John Kerry expressed the U.S. concern that Egypt's crackdown could be fueling violence. Nevertheless, per a provision in the FY2015 Consolidated Appropriations Act, Kerry certified that it is important to the national security interest of the United States to provide economic and military assistance to Egypt, bypassing other certification requirements under U.S. law that would limit assistance to Egypt if its government does not meet democracy-based conditions specified both in the FY2015 Act and in the FY2014 Appropriations Act.

In October 2015, the United States and Egypt resumed co-production of the M1A1 Abrams tank at the Egyptian Tank Plant 200 outside Cairo. General Dynamics Land Systems is the primary contractor implementing the production of 125 M1A1 tanks, which had been previously been suspended by the Administration. Egypt also has taken delivery of 10 AH-64 Apache helicopters, two Fast Missile Crafts, and 12 F-16 fighter jets.

U.S. Foreign Assistance to Egypt

Overview

Between 1948 and 2015, the United States provided Egypt with \$76 billion in bilateral foreign aid (calculated in historical dollars—not adjusted for inflation), including \$1.3 billion a year in military aid from 1987 to the present.

The 1979 Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In two separate memoranda accompanying the treaty, the United States outlined commitments to Israel and Egypt,

⁴⁵ For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by Jeremy M. Sharp.

⁴⁶ "The Politics of Restoring Egypt's Military Aid," *Washington Post*, April 2, 2015.

⁴⁷ "Obama Wrecked U.S.-Egypt Ties," *National Interest*, April 7, 2015.

respectively. In its letter to Israel, the Carter Administration pledged to “endeavor to take into account and will endeavor to be responsive to military and economic assistance requirements of Israel.” In his letter to Egypt, former U.S. Secretary of Defense Harold Brown wrote:

In the context of the peace treaty between Egypt and Israel, the United States is prepared to enter into an expanded security relationship with Egypt with regard to the sales of military equipment and services and the financing of, at least a portion of those sales, subject to such Congressional review and approvals as may be required.⁴⁸

All U.S. foreign aid to Egypt (or any foreign recipient) is *appropriated and authorized by Congress*. The 1979 Egypt-Israel Peace Treaty is a bilateral peace agreement between Egypt and Israel, and the United States is not a legal party to the treaty. The treaty itself does not include any U.S. aid obligations, and any assistance commitments to Israel and Egypt that could be potentially construed in conjunction with the treaty were through ancillary documents or other communications and were—by their express terms—subject to congressional approval (see above). However, as the peace broker between Israel and Egypt, the United States has traditionally provided foreign aid to both countries to ensure a regional balance of power and sustain security cooperation with both countries.

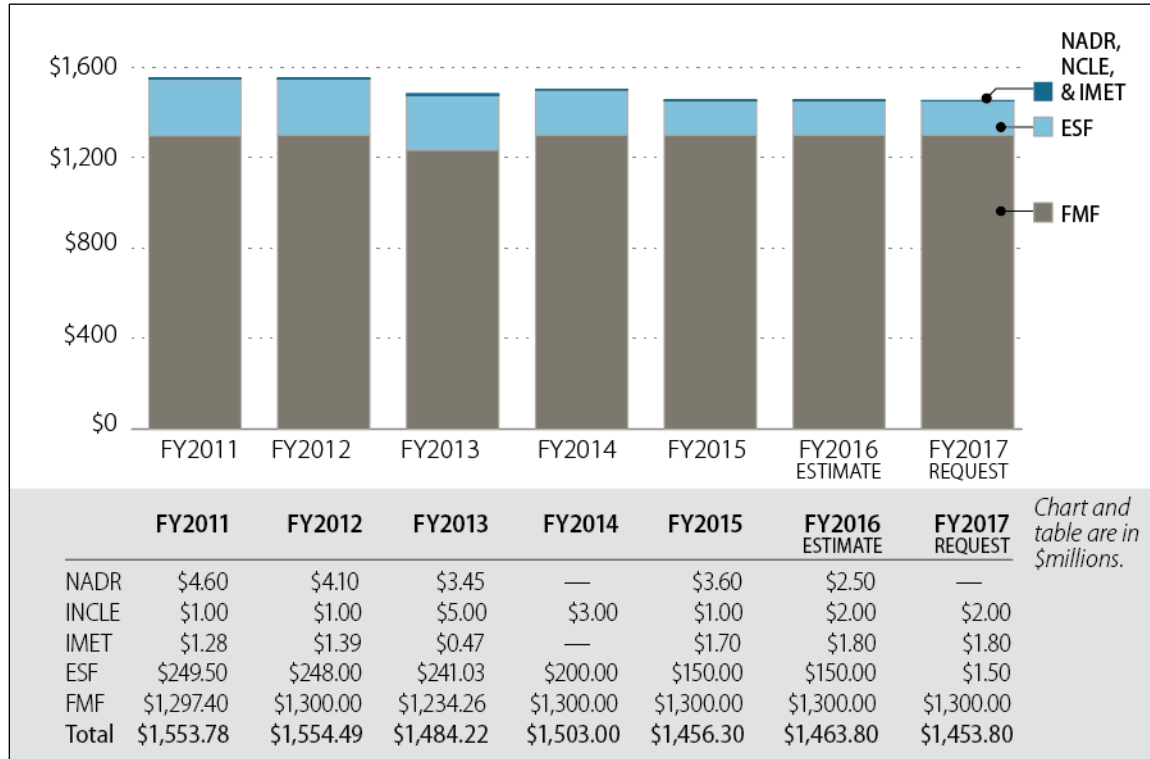
In some cases, an Administration may sign a bilateral “Memorandum of Understanding” (MOU) with a foreign country pledging a specific amount of foreign aid to be provided over a selected time period subject to the approval of Congress. In the Middle East, the United States has signed foreign assistance MOUs with Israel (FY2009-FY2018) and Jordan (FY2015-FY2017). Currently, there is no U.S.-Egyptian MOU specifying a specific amount of total U.S. aid pledged to Egypt over a certain time period. In July 2007, the Bush Administration had announced, as a part of a larger arms package to the region, that it would begin discussions with Egypt on a proposed \$13 billion military aid agreement over a 10-year period. Since Egypt was already receiving approximately \$1.3 billion a year in military assistance, the announcement represented no major change in U.S. aid policy toward Egypt. Since then, no such bilateral MOU on U.S. military aid to Egypt has been reached either by the Bush or Obama Administrations with the Egyptian government.

Congress typically specifies a precise allocation of most foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).⁴⁹ The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term.

⁴⁸ See Letter From the Secretary of Defense (Brown) to-the Egyptian Minister of Defense and War Production (Ali), March 23, 1979, “United States Sales of Military Equipment and Services to Egypt.” Ultimately, the United States provided a total of \$7.3 billion to both parties in 1979. The Special International Security Assistance Act of 1979 (P.L. 96-35) provided both military and economic grants to Israel and Egypt at a ratio of 3 to 2, respectively, though this ratio was not enshrined in the treaty as Egypt would later claim.

⁴⁹ Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement. The Administration typically requests these funds, but they are not usually specifically earmarked for Egypt (or for most other countries) in legislation. After the passage of a foreign operations appropriations bill, federal agencies such as the State Department and the U.S. Agency for International Development (USAID) allocate funds to Egypt from these aid accounts. They then submit a country allocation report (653a Report) to Congress for review.

Figure 4. U.S. Assistance to Egypt, FY2011-FY2017 Request
(Regular and Supplemental Appropriations; Current Year \$ in Millions)



Source: U.S. State Department.

Notes: In FY2013, the State Department allocated an additional \$202 million in FY2013 ESF for an “Egypt Initiative,” which was intended to support a loan guarantee program. Following the President’s review of Egypt assistance in summer 2013, the Administration made a decision to no longer pursue a loan guarantee. Programmatic decisions about this funding are still being determined.

Military Aid and Arms Sales

Overview

Since the 1979 Israeli-Egyptian Peace Treaty, the United States has provided Egypt with large amounts of military assistance. U.S. policymakers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running military cooperation and on sustaining the treaty—principles that are supposed to be mutually reinforcing. Egypt has used U.S. military aid through the FMF to (among other things) gradually replace its earlier Soviet-origin equipment with U.S. defense systems.

Frequently Asked Question: Is U.S. Military Aid Provided to Egypt as a Cash Transfer?

No. All U.S. military aid to Egypt finances the procurement of weapons systems and services from U.S. defense contractors.⁵⁰ The United States provides military assistance to U.S. partners and allies to help them acquire U.S. military equipment and training. Egypt is one of the main recipients of FMF, a program with a corresponding appropriations account administered by the Department of State but implemented by the Department of Defense. FMF is a grant program that enables governments to receive equipment and associated training from the U.S. government or to access equipment directly through U.S. commercial channels.

Most countries receiving FMF generally purchase goods and services through government-to-government contracts, also known as Foreign Military Sales (FMS). According to the Government Accountability Office, “under this procurement channel, the U.S. government buys the desired item on behalf of the foreign country (Egypt), generally employing the same criteria as if the item were being procured for the U.S. military.” The vast majority of what Egypt purchases from the United States is conducted through the FMS program funded by FMF. Egypt uses few of its own national funds for U.S. military equipment purchases.

Under Section 36(b) of the Arms Export Control Act (AECA), Congress must be formally notified 30 calendar days before the Administration can take the final steps of a government-to-government foreign military sale of major U.S.-origin defense equipment valued at \$14 million or more, defense articles or services valued at \$50 million or more, or design and construction services valued at \$200 million or more. In practice, pre-notifications to congressional committees of jurisdiction occur and proposed arms sales generally do not proceed to the public official notification stage until issues of potential concern to key committees have been resolved.

Realigning Military Aid from Conventional to Counterterrorism Equipment

For decades, FMF grants have supported Egypt’s purchases of large-scale conventional military equipment from U.S. suppliers. However, as previously mentioned, the Administration has announced that future FMF grants may only be used to purchase equipment specifically for “counterterrorism, border security, Sinai security, and maritime security” (and for sustainment of weapons systems already in Egypt’s arsenal).⁵¹

At this time, it is unclear how the Administration will determine which U.S.-supplied military equipment will help the Egyptian military counter terrorism and secure its land and maritime borders. Overall, some defense experts continue to view the Egyptian military as inadequately prepared, both doctrinally and tactically, to face the threat posed by terrorist/insurgent groups such as Sinai Province. In order to reorient the military toward unconventional warfare, the Egyptian military needs, according to one assessment, “heavy investment into rapid reaction forces equipped with sophisticated infantry weapons, optics and communication gear ... backed by enhanced intelligence, surveillance and reconnaissance platforms. In order to transport them, Egypt would also need numerous modern aviation assets.”⁵²

⁵⁰ For the relevant legal authorities, see §604 of the Foreign Assistance Act as amended (22 U.S.C. 2354) and §503 of the Foreign Assistance Act as amended (22 U.S.C. 2311).

⁵¹ According to a 2015 GAO report on U.S. assistance to Egypt, DSCA “led a review of Egypt’s FMF program to align current purchases with shared security interests and to make recommendations on whether to continue to support specific systems through FMF. As part of this review, DSCA identified some systems that did not directly align with shared security interests. These included some older, outdated, or third-party produced systems, such as Chinese-built submarines and Russian-made surface-to-air missiles, as well as U.S.-manufactured Gulfstream VIP aircraft and M1A1 tank kits. DSCA recommended continuing support for 18 of these systems totaling \$6.5 billion, but identified 15 of these systems totaling \$777 million that should be transitioned from FMF funds to Egyptian government funds or ended.” See, GAO-15-259, “EGYPT U.S. Government Should Examine Options for Using Unobligated Funds and Evaluating Security Assistance Programs,” February 2015.

⁵² “Egypt’s Conventional Military Thinking,” *Stratfor*, June 12, 2015.

Special Military Assistance Benefits for Egypt

In addition to substantial amounts of annual U.S. military assistance, Egypt has benefited from certain aid provisions that have been available to only a few other countries. For example:

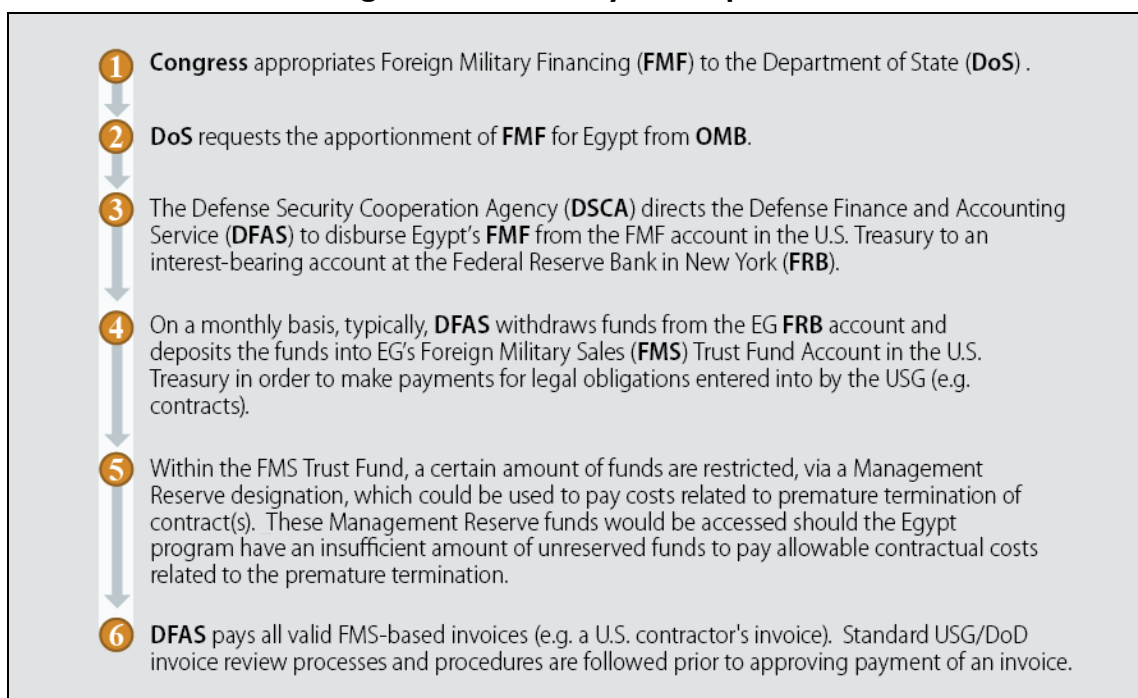
- **Early Disbursal and Interest Bearing Account:** Between FY2001 and FY2011, Congress granted Egypt early disbursement of FMF funds (within 30 days of the enactment of appropriations legislation) to an interest-bearing account at the Federal Reserve Bank of New York.⁵³ Interest accrued from the rapid disbursement of aid has allowed Egypt to receive additional funding for the purchase of U.S.-origin equipment. In FY2012, Congress began to condition the obligation of FMF, requiring the Administration to certify certain conditions had been met before releasing FMF funds, thereby eliminating their automatic early disbursal. However, Congress has permitted Egypt to continue to earn interest on FMF funds already deposited in the Federal Reserve Bank of New York.
- **The Excess Defense Articles (EDA) program** provides one means by which the United States can advance foreign policy objectives—assisting friendly and allied nations through provision of equipment in excess of the requirements of its own defense forces. The Defense Security Cooperation Agency (DSCA) manages the EDA program, which enables the United States to reduce its inventory of outdated equipment by providing friendly countries with necessary supplies at either reduced rates or no charge. As a designated “major non-NATO ally,” Egypt is eligible to receive EDA under Section 516 of the Foreign Assistance Act and Section 23(a) of the Arms Export Control Act.
- **Cash Flow Financing:** Section 23 of the Arms Export Control Act (22 U.S.C. §2763⁵⁴) authorizes the President to finance the “procurement of defense articles, defense services, and design and construction services by friendly foreign countries and international organizations, on such terms and conditions as he may determine consistent with the requirements of this section.” Successive Administrations have used this authority to permit Israel and Egypt to set aside almost all FMF funds for current year payments only, rather than set aside the

⁵³ By law, Egypt and Israel are permitted to earn interest on congressionally appropriated Foreign Military Financing (FMF). During the late 1990s, the Clinton Administration (especially the U.S. Defense Department) and the Egyptian government sought to increase U.S. military aid to Egypt. One proposal had been to grant Egypt a benefit already enjoyed by Israel—the use of an interest-bearing account in which unspent FMF funds can accumulate interest to be used for future purchases. During Senate consideration of legislation to provide Egypt access to an interest-bearing account, Senator Mitch McConnell remarked that “In the State Department briefing justifying the request, U.S. officials urged our support because of Mubarak’s need to address the requirements of ‘his key constituents, the military.’ Frankly, I think Mr. Mubarak needs to worry less about satisfying the military and spend more time and effort shoring up democratic institutions and civic society.” See Congressional Record-Senate, S5508, June 21, 2000. In October 2000, Congress passed P.L. 106-280, the Security Assistance Act of 2000, which authorized FY2001 FMF funds for Egypt to be disbursed to an interest-bearing account in the Federal Reserve Bank of New York. The law required that none of the interest accrued by such account should be obligated unless first notified to relevant congressional appropriations and oversight committees. In November 2000, Congress passed P.L. 106-429, the FY2001 Foreign Operations Appropriations Act, which included an interest-bearing account for Egypt in appropriations legislation. Since then, this provision has remained in annual appropriations legislation, most recently in P.L. 114-113, the Consolidated Appropriations Act, 2016.

⁵⁴ Section 23(g)(1) of the AECA requires congressional notification of Letters of Offer and Acceptance (LOAs), Amendments, and commercial contracts for \$100 million or greater that are partially or totally funded with cash flow financing.

full amount needed to meet the full cost of multi-year purchases.⁵⁵ Known as “cash flow financing,” this benefit enables Egypt to negotiate major arms purchases with U.S. defense suppliers and acquire defense systems with payments scheduled over a longer time horizon. On March 31, 2015, the White House announced that beginning in FY2018, the United States would stop providing cash flow financing (CFF) to Egypt; successive Administrations have authorized CFF for Egypt since 1979. For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by Jeremy M. Sharp.

Figure 5. The Military Aid “Pipeline”



Source: Information from Defense Security Cooperation Agency. Graphic created by CRS.

Economic Aid

Overview

Although Egypt still receives economic assistance from the Economic Support Fund (ESF), the nature of U.S. support has changed significantly over the years. In the early to mid-1970s, as the United States sought to expand its relationship with Egypt, encourage peace with Israel, and promote a capitalist economy, U.S. loans and grant aid helped Egypt modernize its national infrastructure.⁵⁶ When Egypt made peace with Israel and subsequently became politically and

⁵⁵ In the past, other countries such as Greece, Portugal, and Turkey have been granted the benefit of cash flow financing but only for specific purchases, such as F-16 aircraft. See General Accounting Office, “Military Sales, Cash Flow Financing, Report #GAO/NSIAD-94-102R, February 8, 1994.

⁵⁶ In the late 1970s, U.S. aid to Egypt was substantial when compared to both the size of the Egyptian economy and the government's budget. According to former U.S. Ambassador to Egypt Edward S. Walker Jr., “In terms of Egypt's non- (continued...) ”

economically isolated from the rest of the Arab world, a large-scale U.S. assistance program helped offset the losses from Egypt's diplomatic isolation while building Cairo's sewer system, a telecommunications network, and thousands of schools and medical facilities.⁵⁷

However, beginning in the mid to late 1990s, as Egypt moved from an impoverished country to a lower-middle income economy, the United States and Egypt began to rethink the assistance relationship, emphasizing "trade not aid." In 1994, then Vice President Al Gore and former Egyptian President Hosni Mubarak formed the U.S.-Egypt Partnership for Economic Growth, a bilateral forum designed ultimately to boost the Egyptian private sector and promote U.S.-Egyptian trade. The Egyptian government had hoped that high-level U.S. attention on bilateral economic issues would ultimately lead to a possible Free Trade Agreement (FTA) with the United States.⁵⁸ However, as bilateral relations somewhat soured during the Bush Administration, an array of political and economic U.S. concerns (e.g., Egypt's poor human rights record, lack of protection for intellectual property) hampered any momentum for a U.S.-Egypt FTA.⁵⁹

U.S. Funding for Democracy Promotion

U.S. funding for democracy promotion activities and good governance has been a source of acrimony between the United States and Egypt for years. Though the two governments have held numerous consultations over the years regarding what Cairo might view as acceptable U.S.-funded activities in the democracy and governance sector, it appears that the sides have not reached a consensus. Using the appropriations process, Congress has acted to ensure that "democracy and governance activities shall not be subject to the prior approval by the government of any foreign country."⁶⁰

The Consolidated Appropriations Act, 2016, like previous versions, contains several provisions on U.S. democracy assistance, including Section 7041(a)(2)(B), which mandates that the Secretary of State withhold an amount of ESF to Egypt determined to be equivalent to that expended by the United States Government for bail, and by nongovernmental organizations for legal and court fees, associated with democracy related trials in Egypt until the Secretary certifies that Egypt has dismissed the convictions issued by the Cairo Criminal Court on June 4, 2013. In 2014, the Egyptian government mandated, per law 84 of 2002, that all civil society groups must register with the Ministry of Social Solidarity. Article 78 of the Egyptian penal code also was amended to mandate life imprisonment for anyone who receives funds from foreign entities in the context of counterterrorism; though democracy activists fear that this amendment will be used to silence dissent.⁶¹

(...continued)

recurring expenditures in 1979, that is excluding salaries and so forth, the aid infusion was equal to about two thirds of Egypt's discretionary budget at that time. Today the program hardly makes the chart." See Statement by Ambassador Edward S. Walker, Jr. President, Middle East Institute, "U.S. Economic Aid To Egypt," Committee on House International Relations, June 17, 2004.

⁵⁷ In 1978, the United States and Egypt signed a bilateral Economic, Technical, and Related Assistance Agreement, which states in clause one that "the furnishing of such assistance shall be applicable to United States laws and regulations. It shall be made available in accordance with arrangements agreed upon between the above-mentioned representatives." See Agreement between the United States of America and Egypt, signed at Cairo, August 16, 1978, Treaties in Force, U.S. State Department, Office of the Legal Adviser, 9481.

⁵⁸ As a first step, the two parties signed a Trade and Investment Framework Agreement (TIFA) in 1999. The TIFA established a Council on Trade and Investment (TIFA Council) composed of representatives of both governments and chaired by the United States Trade Representative (USTR) and Egypt's Minister of Economy and Foreign Trade.

⁵⁹ 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. Egypt did not enter the QIZ program until 2004, more than seven years after the offer was formally extended by Congress. In March 2013, nearly a decade after Egypt entered the QIZ program, the USTR announced an expansion of the QIZ program to include two new QIZ areas.

⁶⁰ Originally referred to as the Brownback amendment, this legislative language began in reference to Egypt, but was expanded in FY2008 to include "any foreign country." See P.L. 110-161. This provision has been retained in Section 7032 of P.L. 113-235, the FY2015 Consolidated Appropriations Act.

Congress began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached between the United States and Israel in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials, sensing that their economic growth had obviated the need for that type of U.S. aid at a time when Congress sought to reduce foreign assistance expenditures, 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, Congress reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008.

The Bush Administration, whose relations with then-President Hosni Mubarak suffered over the latter’s reaction to the Administration’s democracy agenda in the Arab world, then requested that Congress cut ESF aid by half in FY2009 to \$200 million. Congress appropriated the President’s request. Upon taking office in 2009, President Obama sought a \$50 million increase in economic aid to Egypt for FY2010, which Congress then passed. From FY2010 to FY2013, Congress appropriated ESF to Egypt at the \$250 million Administration-requested level. In FY2014 and FY2015, Congress provided up to \$200 million and \$150 million respectively in ESF to Egypt, of which not less than \$35 million was specified for higher education programs and scholarships.

As in the previous two fiscal years, the FY2017 Administration request seeks to maintain ESF at the \$150 million level. Presently, there is no bilateral agreement between the United States and Egypt on overall levels of economic assistance. U.S. economic aid to Egypt is divided into two components: (1) USAID-managed programs⁶² (public health, education,⁶³ economic development, democracy and governance); and (2) the U.S.-Egyptian Enterprise Fund. According to the GAO, there are “significant unobligated balances in the ESF account,” dating back to Egypt’s 2011-2013 political transition, and various obstacles that arose at that time toward implementing support programs.⁶⁴

The Enterprise Fund

In late 2011, when Congress passed P.L. 112-74, the Consolidated Appropriations Act, 2012, it authorized the creation of an enterprise fund for Egypt, Jordan, and Tunisia.⁶⁵ The goal of such a

(...continued)

⁶¹ “Egyptian Activists fear new Penalties for Foreign Funding,” *Al Monitor*, October 10, 2014.

⁶² For FY2014, USAID estimates that of the \$200 million in ESF it has allocated for Egypt, an estimated \$6.19 million will be directed toward democracy, good governance, and political competition, \$52 million for basic and higher education, and \$141.81 million on various economic development, trade, macroeconomic growth, agriculture, and private sector competitiveness programs. See, Congressional Notification #88, USAID Country Narrative Egypt, May 19, 2015.

⁶³ USAID’s Higher Education Initiative (HEI) has received the most programmatic ESF assistance from USAID for Egypt since 2011. According to USAID, the HEI provides funding for “1) scholarships to Egyptian women for Master of Business Administration degrees in the United States; 2) scholarships to Egyptian women for Bachelor’s degrees in the United States in the fields of science, technology, engineering and math; 3) Fulbright scholarships to disadvantaged youth for Master’s degrees in the United States, through a transfer to the Department of State’s Bureau of Educational and Cultural Affairs; 4) scholarships to Egyptian civil servants for Master’s degrees in the United States; and 5) scholarships to economically disadvantaged men and women to pursue Bachelor’s degrees at select, high-quality Egyptian public and private universities that provide instruction in English. The HEI will also fund partnerships between Egyptian and U.S. universities.” Implementing partners for the HEI are: World Learning, Inc., American University in Cairo (AUC), Institute of International Education (IIE), Bi-national Fulbright Commission. See Congressional Notification #101, May 2, 2014, USAID Country Narrative, Egypt.

⁶⁴ *op.cit.* GAO, February 2015.

⁶⁵ See Section 7041(b) of the act, which states: “Up to \$60,000,000 of funds appropriated under the heading ‘Economic (continued...)’

fund is to further develop Egypt's private sector, particularly in the agricultural sector, by making equity investments in small to medium-sized businesses or providing entrepreneurs with start-up loans and technical assistance. In 2012, The Egyptian-American Enterprise Fund (EAEF) was formally incorporated in Delaware and in November 2012, the State Department notified Congress of its intent to obligate \$60 million in FY2012 ESF aid to capitalize the fund. A second notification of an additional \$60 million obligation in ESF was notified to Congress in October 2013. The fund is chaired by fund manager James A. Harmon.⁶⁶ According to one report, "Harmon developed a plan to buy control of a financial institution in Egypt that could get financing from the Ex-Im Bank and dozens of other institutions around the world—leveraging the U.S. commitment of \$60 million annually over five years to produce a much bigger lending operation."⁶⁷

However, because the fund was formally launched during the Morsi administration, some Members of Congress were concerned about plans to expand U.S.-Egyptian economic cooperation. In the fall of 2012, then Chairwoman of the House Foreign Affairs Committee Representative Ileana Ros-Lehtinen placed an informal hold on the initial \$60 million ESF obligation (it was eventually lifted). In 2013, after the military's ouster of Morsi, Senator Lindsey Graham placed a hold on the second obligation of \$60 million in ESF, with a spokesman for the Senator saying "Senator Graham has placed a hold on these funds and until he sees Egypt moving toward democracy, he will continue to restrict funding.... Additionally, he believes American taxpayers deserve a much clearer explanation of what exactly is President Obama's policy toward Egypt."⁶⁸ Senator Graham lifted his hold in early December 2013 just as a draft copy of Egypt's amended constitution was made public in preparation for a national referendum on its adoption.

In February 2015, the Government Accountability Office (GAO) released a report on the status of the Egyptian and Tunisian Enterprise Funds. The report found that

"The Egyptian-American Enterprise Fund (EAEF) has not yet made any investments in Egypt.... EAEF has not made any investments in Egypt as its initial investment did not proceed as planned. EAEF's attempt to purchase a bank in Egypt that would lend money

(...continued)

Support Fund' in this Act and prior acts making appropriations for the Department of State, foreign operations, and related programs (and including previously obligated funds), that are available for assistance for Egypt, up to \$20,000,000 of such funds that are available for assistance for Tunisia, and up to \$60,000,000 of such funds that are available for assistance for Jordan, respectively, may be made available notwithstanding any other provision of law, to establish and operate one or more enterprise funds for Egypt, Tunisia, and Jordan, respectively." The law also states that "each fund shall be governed by a Board of Directors comprised of six private United States citizens and three private citizens of each country, respectively, who have had international business careers and demonstrated expertise in international and emerging markets investment activities.... The authority of any such fund or funds to provide assistance shall cease to be effective on December 31, 2022." Section 7034(r) of P.L. 113-235, the FY2015 Consolidated Appropriations Act, authorized the use of FY2015 ESF funds to operate the enterprise fund for Egypt (and Tunisia).

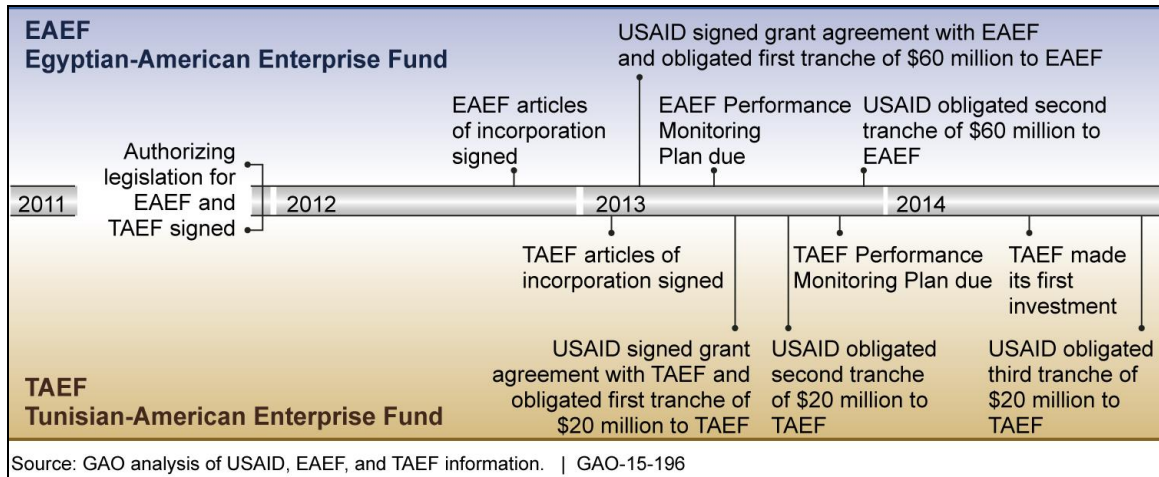
⁶⁶ The fund's board of directors includes Sherif Kamel, Dean of the School of Business at the American University in Cairo (AUC), Hani Sari-El Din, head of the Middle East Institute for Law and Development (MIDL), Neveen El-Tahri, Regional Director of Delta Shield for Investments, Jim Owens, the Chairman of the Board of Directors of Caterpillar Inc., Haytham Al-Nather, Head of TA Stock Investment Corporation, Tarek Abdul Majid, Chairman of the international investment banking sector at Morgan Stanley, and Dina Powell, President of the Goldman Sachs Foundation. See <http://www.wamda.com/2013/05/egyptian-american-enterprise-fund-launches-to-support-egyptian-startups>.

⁶⁷ David Ignatius, "An Egyptian Aid Package, Stuck in a D.C. Labyrinth," *Washington Post*, July 19, 2013.

⁶⁸ "U.S. Aid to Egypt Stuck in Limbo," *CQ News*, October 28, 2013.

to small and medium-sized enterprises (SME) was rejected by the Egyptian Central Bank.”⁶⁹

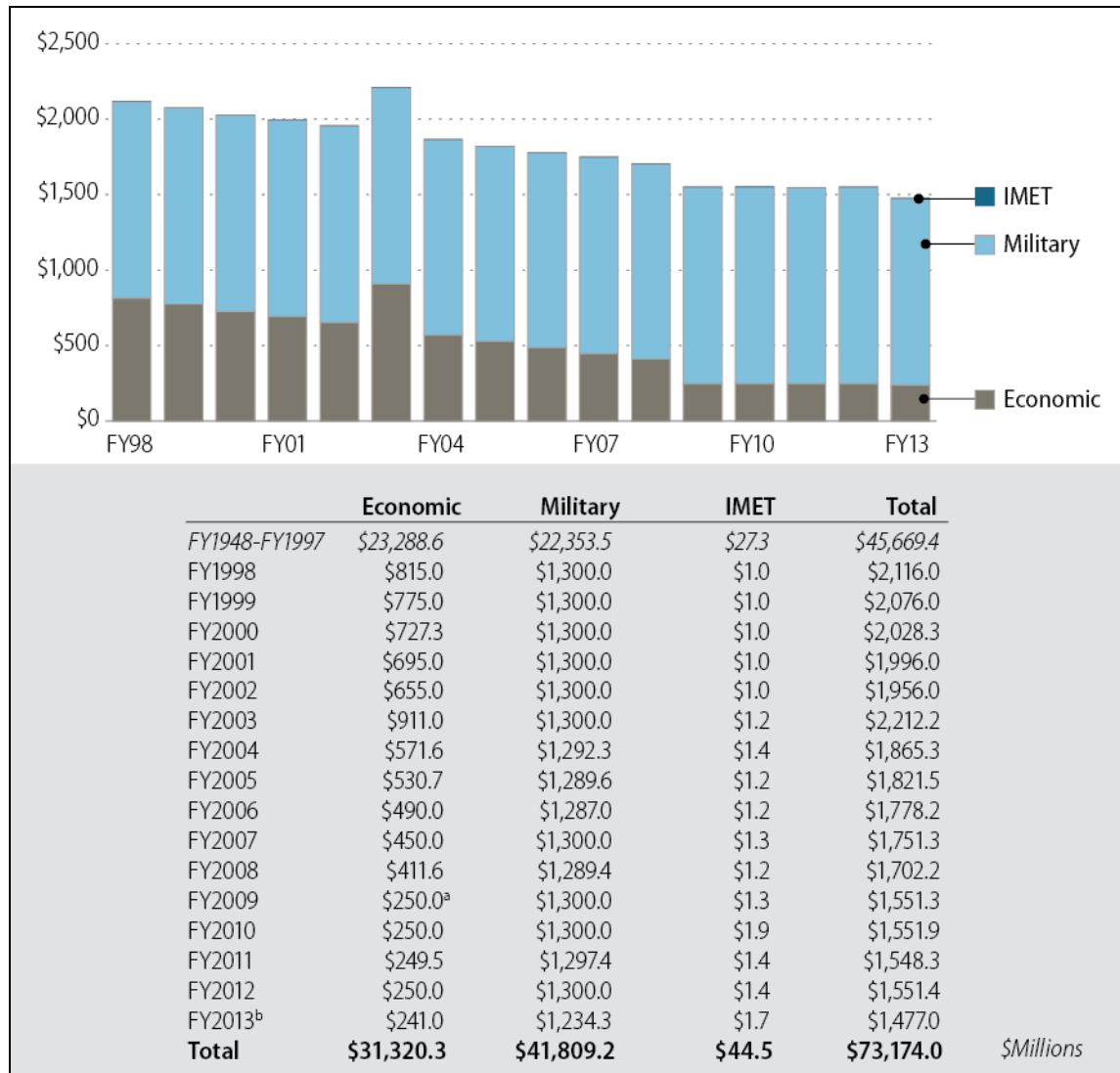
Figure 6. The Egyptian-American Enterprise Fund



Source: Government Accountability Office, GAO-15-196.

⁶⁹ Government Accountability Office, GAO-15-196, February 2015.

Figure 7. U.S. Foreign Assistance to Egypt
(\$ in millions)



Source: Created by CRS.

- a. In FY2009, Egypt received \$200 million in ESF from P.L. 111-8, the FY2009 Omnibus Appropriations Act. It then received an additional \$50 million in ESF from P.L. 111-32, the FY2009 Supplemental Appropriations Act.
- b. Reduced due to sequestration.

Table 1. U.S. Foreign Assistance to Egypt, 1946-1997

(\$ in millions)

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL 480 I	PL 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWR A	—	—	—	—	—	—
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
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

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL 480 I	PL 480 II
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	—
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	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

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 Section 416 food donations.

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

* = less than \$100,000

IMET = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

DA = Development Assistance

ESF = Economic Support Funds

PL 480 I = Public Law 480 (Food for Peace), Title I Loan

PL 480 II = Public Law 480 (Food for Peace), Title II Grant

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