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. In the wake of Mubarak's resignation, a Supreme Council of the Armed Forces (SCAF)—made up entirely of military officers who enjoyed leading positions under Mubarak—has exercised executive authority directly and via an interim cabinet led by Prime Minister Essam Sharaf. The SCAF oversaw a March 2011 referendum that approved amendments to Egypt's constitution, issued a constitutional declaration, and has also issued new laws on the formation of political parties and the conduct of upcoming parliamentary elections. The amended constitution lays out a transition framework in which the elected People's Assembly and Shura Council will, in conjunction with the SCAF, select members for a 100-person constituent assembly to draft a new constitution subject to a referendum in 2012 or 2013.

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 112th 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.

On September 22, 2011, the Senate Committee on Appropriations marked up S. 1601, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012. The bill provides the full FY2012 $1.55 billion request for Egypt, but it does include some conditions. The bill authorizes FMF grants to be transferred to ESF. It also states that no funds in the bill may be provided to Egypt unless the Secretary of State certifies to the Committees on Appropriations that such government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty and that that the Government of Egypt has held free and fair elections and is implementing policies to protect the rights of journalists, due process, and freedoms of expression and association. S. 1601 also authorizes bilateral debt relief for Egypt and up to $60 million in ESF for Egypt to create an Enterprise Fund to support small and medium-sized businesses (SMEs).

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Overview: Where is Egypt Heading?

As Egypt begins parliamentary elections and the writing of a new constitution, Egypt's political landscape has become both simultaneously clearer and more complex. For observers, it is clearly evident that two forces have become the main political players in Egypt—the military (Supreme Council of the Egyptian Armed Forces or SCAF) and the Muslim Brotherhood (MB). Though these groups are considered rivals[1] and often clash over setting the ground rules governing the transition, their relationship, at least in the short term, is symbiotic—both camps need to cooperate in order to build a more democratic political system that is both publicly accepted and internationally legitimate. For both the SCAF and the Muslim Brotherhood, the question is whether they can cooperate long enough to achieve a smooth transition amidst a massive economic downturn, rising crime, unreasonably high public expectations[2], sectarian conflict, and tensions with Israel. [3]

Figure 1. Egypt: A Year of Dramatic Change
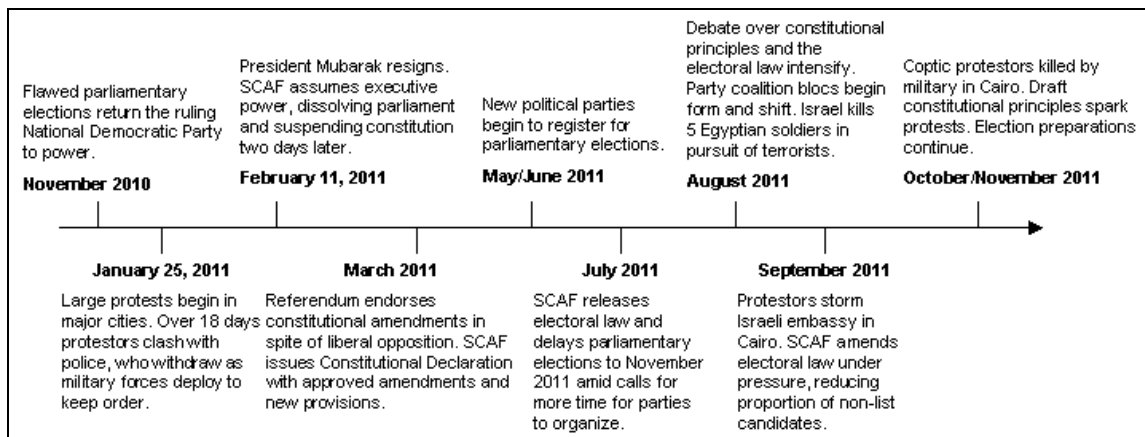
Source: CRS Graphics

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[1] Over the long term, most experts believe that should Egypt succeed in moving toward a peaceful and orderly transition in the short term, civil-military relations will characterize future political debates, as Islamist and non-Islamist parties seek to limit the military's influence in politics and the economy. The military does not want to subordinate itself to any civilian-led government, Islamist or not. It perceives itself as the only institution capable of stabilizing and leading Egypt (either in front or behind-the-scenes) a perception most certainly strengthened by its governing experience over the past ten months.

[2] According to a State Department survey, "a majority of Egyptians (60%) say the country is better off after the revolution, and slightly more than half (54%) believe the country is on the right track. However, these numbers are down 10 points from their April highs, reflecting a tempering of optimism after Egypt's revolution Fading optimism coincides with anxiety about the economy and security." See, INR Opinion Analysis: For Egyptians Shine Starting to Come Off Revolution, State Department in English, October 25, 2011, Document ID# FBS20111103528674.

[3] Those experts who answer this question in the affirmative point to a fall 2011 MB-SCAF agreement over the law governing parliamentary elections. At first, the MB had objected, among other things, to allow 1/3 of seats to be contested by independent candidates arguing that they would be filled by remnants of the old regime. The MB threatened to boycott the election which would have dealt a serious blow to the legitimacy of the transition. The SCAF somewhat relented after negotiations and took steps to outlaw former regime officials from the now defunct National Democratic Party (NDP) from running. The situation then stabilized though a recent court ruling has now allowed former NDP party members to stand in the elections.

Beyond the SCAF and Muslim Brotherhood, Egypt's political emerging political landscape is extremely complex, with a broad array of new parties and coalitions as well as remnants of the former regime vying for influence. Youth activists and protest movements, though they remain the conscience of the revolution, have largely dispersed amongst a plethora of different groups, significantly diluting their power to organize mass demonstrations or compete in elections. Even the Islamist camp has become more dynamic than in the past; the Muslim Brotherhood now finds itself competing with Salafist parties, former Islamist terrorist organizations, former youth Brotherhood activists, and centrist Islamists.

For the United States, Egypt's transition is a daunting challenge that presents few good options. Since fairly early in the so-called Arab Spring, the United States has been a vocal supporter of Egyptian democracy and is wary of being perceived as backing an increasingly unpopular military-led government, particularly as the SCAF tightens its grip on the opposition by extending the emergency law, cracking down on Coptic protests, continuing its arrests and detention of activists, and even suggesting that it might take a more direct role in the constitution drafting process. According to Secretary of State Hilary Rodham Clinton, "If, over time, the most powerful political force in Egypt remains a roomful of unelected officials, they will have planted the seeds for future unrest.... Egyptians will have missed a historic opportunity."

Figure 2. Map of Egypt

Figure Source: Map Resources. Adapted by CRS

Egypt's revolution, and the rampant anti-American and anti-Israel sentiments among the newly enfranchised public, may also have made the United States and even Israel more dependent than ever on the Egyptian military leadership. The SCAF is a close U.S. partner based on decades of military-to-military cooperation formed on the basis of the 1979 Camp David agreement. Yet, Egyptian public opinion is overwhelmingly hostile toward Israeli government policies, and various militant groups have attempted to destabilize the Sinai Peninsula by using it as a base of operations to conduct attacks inside Israel, to sabotage gas pipelines leading from Egypt to Israel and Jordan, and to increase arms smuggling activities there. Without the Egyptian military's firm commitment to maintaining Camp David, there is concern that other Egyptian actors would not be as supportive of maintaining even a cold peace with Israel.

Other options for U.S. policymakers are not much better. Many observers are concerned that Islamist and leftist nationalist groups, though they may engage diplomatically with the United States, may not value the very close U.S.-Egyptian relations that were a hallmark of the Mubarak regime. What U.S. engagement with Egyptian Islamists will look like in the months and years ahead is uncertain and depends on decisions by both sides. Some U.S. officials have already

conducted meetings with party representatives from the Brotherhood's Freedom and Justice Party (FJP).[4] According to Secretary of State Hillary Rodham Clinton:

> We will be willing to and open to working with a government that has representatives who are committed to non-violence, who are committed to human rights, who are committed to the democracy that I think was hoped for in Tahrir Square, which means that Christians will be respected, women will be respected, people of different views within Islam will be respected. We have said we will work with those who have a real commitment to what an Egyptian democracy should look like. Now, we don't expect your democracy to mirror ours -- every country is unique historically and culturally -- but we do think, from long experience around the world, there are certain pillars to a democracy: free press, free speech, independent judiciary, protection of minority rights, protection of human rights. All that was in the air in Tahrir Square. So we hope that anyone who runs for election, and certainly anyone who's elected and joins the parliament, joins the government, will be committed to making Egypt work and be open to all Egyptians no matter who you might be.[5]

If Egypt's transition continues on schedule and a democratically elected government takes power with minimal SCAF interference, many experts believe that U.S.-Egyptian relations will still need time to recalibrate. Egypt, while still a vital regional partner, may no longer be as reliable a partner—U.S. policymakers may need to adjust to a more independent, publicly accountable Egyptian foreign policy. Moreover, if the Israeli-Palestinian conflict remains unresolved in the years ahead, any democratically elected Egyptian government may be expected to oppose strong U.S.-Egyptian-Israeli ties, complicating efforts to promote peace or even maintain the 1979 peace treaty.

If Egypt's transition were to veer off course due to undemocratic, unilateral action by SCAF, sectarian clashes between Muslims and Copts, regional Arab-Israeli violence, or civil war, U.S. foreign policy in the Middle East would be even more challenged than it currently is by ongoing unrest elsewhere in the Arab world. During the revolution of 2011, many U.S. observers were concerned about access to the Suez Canal and its continued use for oil shipments and U.S. naval vessels. Any erosion of the 1979 Israel-Egypt peace treaty also would be of primary concern to policymakers. Though the current period of Arab unrest began in Tunisia in December 2010, its manifestation and success in toppling President Mubarak arguably carried the wave of discontent elsewhere in the region. A setback in Egypt could have ripple effects throughout the Middle East.

The Transition Road Map

In the absence of an elected president, the SCAF has exercised executive power in the fluid and chaotic post-revolutionary environment that has characterized Egypt since February 2011. Initially the transition to an elected parliament and president was expected sooner. However, in response to public pressure and perhaps the SCAF's prerogatives to ensure its own primacy or even survival, the transition has been extended to well into 2013 (See Figure 1 below). Moreover,

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[4] For example, U.S. Deputy Secretary of State for Near Eastern Affairs Jacob Walles met with Muslim Brotherhood leader and Freedom and Justice Party Deputy Chief Essam al Erian on November 14. *Al Masry Al Youm* (Cairo) "Washington Reviews its Middle East Policy," November 16, 2011. See also, [http://bikyamasr.com/44923/egypt-senior-us-officials-meet-with-muslim-brotherhood/]; and , Reuters, "U.S. met with Egypt Islamists - U.S. diplomat," October 2, 2011.

[5] State Department Press Releases And Documents, "Interview With Sharif Amer of Al-Hayat TV," Hillary Rodham Clinton, Secretary of State, Washington, DC, September 29, 2011.

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many analysts note that throughout this delicate period, events and deadlines are subject to change. According to the U.S. Ambassador to Egypt Anne Patterson, "I don't think, frankly, the military knows or anyone else knows.... This process has really been fraught with uncertainty from the very beginning and decisions are often made on a day-to-day basis, so I would expect that to continue for a while."[6]

Figure 3. Egypt's Transition Timeline

Source: Amber Hope Wilhelm, Publishing and Editorial Resources Section, Congressional Research Service. Based on the Supreme Council of the Armed Forces Constitutional Declaration and other SCAF announcements.

The 2011-2012 Parliamentary Elections

Parliamentary elections are scheduled to begin for the lower house (People's Assembly) of parliament on November 28, 2011 and last three and a half months until the upper house (Shura Council) completes its election in mid March 2012. The elections are staggered, in part, to allow judges to supervise polling stations nationwide. The management of the elections is supervised by the Higher Electoral Committee led by Chairman Abdel Moez Ibrahim.[7] The status of foreign election observers is unclear, though the SCAF invited The Carter Center to observe the elections.[8]

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[6] "Egypt Unclear on Timetable of Power Transfer, U.S. Says," *New York Times*, October 4, 2011.

[7] Available online in English at: [http://www.elections.gov.eg/en/html/home.htm]

[8] See, [http://www.cartercenter.org/news/pr/egypt-111411.html]

The extremely complex rules governing the parliamentary election concern many observers, who assert that the system may be too onerous or lengthy for Egyptians to comprehend or to remain engaged in, thereby depressing voter turnout. Lower turnout would benefit established parties and individuals, such as the Brotherhood's FJP party and former regime officials. For the lower house, voters will be electing a total of 498 members,[9] two thirds (332 seats) of which will be elected through a Proportional Representation (PR) system and one third (166) through an Individual Candidacy (IC) system (majoritarian two-member, two-round system).[10] For the upper house, the elections will determine who wins 180 seats while the SCAF will appoint the remaining 90 seats.

Figure 4. "The Election System for the 2011 People's Assembly"

(A Graphic Display of the Complexity of Egypt's Voting System)
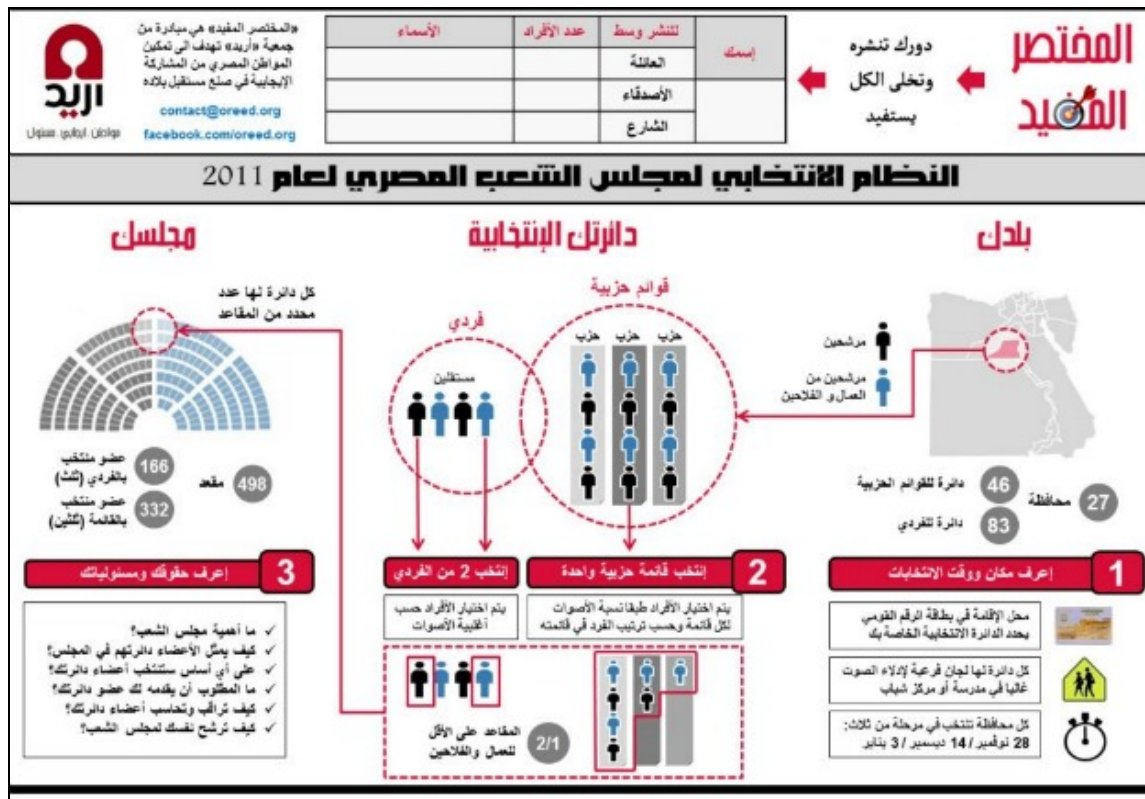
Source: http://mideast.foreignpolicy.com/posts/2011/11/01/egypts_electoral_cunundrum

Notes: Created by oreed.org, an Egyptian organization that aims to spread citizenship awareness. Online at: http://www.facebook.com/oreed.org?ref=hnav

Essentially, voters will cast three votes on two ballots, one for a party list and then two votes for individual candidates who may either by independents or party members running outside a list. The district sizes for the PR (46 total districts) and IC systems (83 total districts) differ greatly, so voter recognition of candidates may be hampered by a lack of geographic familiarity. Furthermore, should a run-off be required as is expected in many races, voters will need to return

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[9] The actual size of the People's Assembly is 508 members, but elections are only for 498 seats with the SCAF able to appoint the remaining 10 members.

[10] In the IC system, a candidate must get more than 50 per cent of the votes to win; otherwise the top two candidates will have to battle it out in a run-off.

to the polls, perhaps multiple times—a phenomena that could depress turnout even further as elections move forward. Altogether, 6,591 candidates are vying for individual seats and 590 for the party list seats in the lower house. In the upper house, there are 2,036 candidates for the individual seats and 272 candidates for the party list seats. Party lists are required to have 50% workers and farmers.

Figure 5. Timetable of Egyptian Parliamentary Elections

Source: Amber Hope Wilhelm, Publishing and Editorial Resources Section, Congressional Research Service.

In the PR system, a so-called "quota and remainder" system is expected to be used to allocate seats, with constituency seat quotas (the number of votes needed to claim a seat) determined by the number of votes cast divided by the number of available seats. Questions remain about the calculation methods that will determine seat allocation, with potentially significant implications for smaller parties and their larger rivals.[11] In early November, the International Foundation for Electoral Systems (IFES) stated that, "The interpretation of the seat allocation formula method will determine a great number of seats in the PA and Shura Council. It could allow one group to win an absolute majority of seats with a minority of votes, with another group holding a significant share of votes but no seats. Unequal and unfair distribution of seats in an election system that is expected to be proportional could ignite violence once election results are known."[12]

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[11] Significant questions remain about how authorities will allocate seats based on the results. It is unclear if and on what basis seats may be allocated to parties that receive votes but fail to reach the vote quota determined for each constituency. Specifically, authorities must decide how seats will be allocated among parties that do not reach the quota relative to those that reach the quota and receive a seat, and have so called "remainder" votes. The method used can have powerful implications for the performance of smaller parties in the election, as illustrated recently in Tunisia where in some districts, smaller parties received seats even though their vote totals were well below the quota. For a brief discussion of the Tunisian example, see Matthew S. Shuggart, "Tunisia preliminary results," *Fruits and Votes* (blog), October 26, 2011, available at: [http://fruitsandvotes.com/?p=5590].

[12] See IFES, Elections in Egypt: Analysis of the 2011 Parliamentary Electoral System, November 2, 2011, p. 8.

Political Parties and Coalitions

In March 2011, the SCAF 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. Since then, groups representing the entire ideological spectrum, including youth movements, socialists, liberals, secularists, leftists, former NDP members, Islamists, and Salafists, have formed throughout the country. As of early November 2011, 55 political parties had registered candidates for the parliamentary elections, 35 of them licensed after the fall of former President Mubarak.

In order to better position themselves in elections, many parties have grouped into coalitions, forming party lists for the PR system of the election. Coalitions also have shattered and reformed due to disagreements over the formation of a party list, as stronger parties such as the FJP have pushed both for more seats allocated to their party and for their familiar candidates to be at the top of their party list at the expense of the weaker members of their coalition.

To date, there are four main coalitions: The Democratic Alliance (Muslim Brotherhood), The Islamist Alliance, The Egyptian Bloc, and the Revolution Continues. The Democratic Alliance is expected to win the most PR system seats, though the margin is uncertain. The FJP within that alliance is contesting over 70% of all seats. Speculation over the percentage of possible seats Islamists will win ranges anywhere from 30%-50% of the total seats in parliament. According to one analysis:

> Egypt's basic election math goes something like this: Among up to 50 million voters, 20 to 30 percent are believed to be supporters of the Muslim Brotherhood or other Islamist factions and are sure to vote. Less than 20 percent, the elite and the Coptic Christian minority, are likely to be committed to civilian rule and are also eager to vote. Hence the challenge is to win over the roughly 50 percent of undecided voters — not least in getting them to vote. Attempts to form unified slates derailed, with, by rough count, 14 liberal organizations and 8 Islamist parties fielding candidates. Standing out among more than 6,000 candidates for 498 seats is difficult.[13]

The following is a brief profile of the main party coalitions:

- **The Democratic Alliance** consists of the FJP (the Muslim Brotherhood); the Karama Party (socialist), led by presidential candidate Hamdeen Sabahi; and the New Ghad Party, led by former presidential candidate Ayman Nour. The Democratic Alliance announced that it would not use the Muslim Brotherhood's common slogan of "Islam is the Solution" but rather a more nationalist slogan of "We Bear Good for All of Egypt."

- **The Islamist Alliance** consists of mostly Salafist parties that broke away from the Democratic Alliance, including the Nour Party, the Asala (Authenticity) Party, the Salafist Current, and the Construction and Development Party, which is the political arm of Al Gamaa Al Islamiya, the former insurgent and terrorist group responsible for murdering former Egyptian President Anwar Sadat. The Nour Party is the largest of the Salafist Islamist parties. In general, Salafists are

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[13] "Ahead of Vote, Egypt's Parties and Skepticism Are Growing," *New York Times*, November 9, 2011.

supporters of a literal version of Islam. The Islamist Alliance is expected to win the second most seats available on the party list system.

- **The Egyptian Bloc** consists of liberal and leftist parties dominated by the Free Egyptians Party led by billionaire Naguib Sawiris. It also includes the Egyptian Social Democratic Party (liberal), and the Tagammu Party (socialist).

- **The Revolution Continues** consists of Socialist Popular Alliance Party, the Egyptian Socialist Party, Egypt Freedom, Equality and Development, the Egyptian Current (a liberal off-shoot of Muslim Brotherhood) and the Revolution Youth Coalition. Some of these parties were originally party of the Egyptian bloc but they separated to form their own list.

- **The New Wafd** is Egypt's oldest political party and is led by businessman Sayyid al Badawi. It had been part of the Democratic Alliance but it broke off after disagreements with the Brotherhood over the allocation of seats on their unified list. It is one of the few parties running alone in the PR system, and it is expected to gather a significant percentage of votes, as voters seek a more established alternative to Islamist groups. The Wafd's list also has 37 Coptic and 87 female candidates.

The Debate over Constitutional Principles

In the summer of 2011, amidst a new round of street protests by revolutionary activists, the SCAF granted some concessions to secular liberal groups. It reshuffled the cabinet and asked experts to draft a set of constitutional principles to serve as guidelines before a constitution is actually drafted, angering some Islamists who charge that any set of principles devoid of overt references to Islamic law would make the country too secular. Negotiations between Islamists and liberals aimed at reaching an agreement on a set of core principles failed later in August. Islamist groups insist that the constitution be drafted by parliament while liberals want an agreed-upon set of principles before the process begins in order to guarantee that Islamists won't turn Egypt into a theocracy.

This issue reemerged in early November, when Deputy Prime Minister Ali al Salmi presented a new draft of principles which would, if adopted and adhered to, vastly increase the power of the military at the expense of political parties. The draft included:

- no parliamentary oversight of the military's defense budget. Article 9 of the draft states that the military's budget will appear as a single number in the state's budget;

- a provision that would require parliamentarians to obtain the military's approval prior to issuing any laws affecting the military;

- authority for the military to refer the new constitution to the Supreme Constitutional Court if it is thought to violate any of the constitutional declarations issued by the military;

- a provision that would allow the military to appoint 80 of the 100 members of the planned constitutional assembly;

- authority to appoint a new constitutional assembly if the first one could not agree on a constitution within six months;

The Muslim Brotherhood and other groups have strongly objected to this draft document and have threatened to launch mass protests if it is not withdrawn.[14] Deputy Prime Minister Salmi was in consultation with political representatives from a number of groups, some of whom signaled provisional support if agreed amendments were issued. On Friday, November 18, thousands of both Islamist and secular protesters gathered in Tahrir Square in a protest dubbed the "Friday of One Demand" to rally against the military's interference in the constitutional-writing process.

October 9 Coptic-Army Clashes

On October 9, 25 Egyptians were killed and more than 300 injured in clashes between Coptic Christian protestors and their supporters on one side and the army and a pro-government mob on the other.[15] The violence started when alleged plainclothes security men attacked Coptic Christians marching from northern Cairo to Maspero, Egypt's state TV and radio headquarters in the downtown area. The demonstrators were protesting the lack of the military's (SCAF—Supreme Council of the Armed Forces) response to Coptic demands for more physical protection of their churches in response to a September 30 arson attack on St. George's Church in Aswan in Upper Egypt. Coptic Christians also were demanding that the government introduce an anti-discrimination law or finalize a draft for a unified building code for Muslim and Christian places of worship. Egypt's legal code governing Church construction and repair has for years aggravated the Coptic Christian community, but the government did not follow through on a promise it made in the spring to move forward on an anti-discrimination law.

On October 9, as demonstrators, some of whom were chanting anti-SCAF slogans, entered a well known underpass close to Maspero, plainclothes assailants began hurling rocks at the crowd and attacking protestors with clubs. Protestors responded by throwing rocks back. As the clashes continued, the army eventually was deployed to the area. Most of the deaths occurred when two or more armored personnel carriers drove at the crowds of protestors and soldiers fired at demonstrators in order to disperse them.[16] In order to limit any potential fallout from unfavorable media coverage of the army's response, the SCAF blocked the coverage of some independent media outlets. State-run media began broadcasting calls for Egyptian citizens to fill the streets to protect soldiers from the demonstrators, prompting new confrontations between pro-government crowds and the Coptic demonstrators. Some assert that state-run media reported that "armed Christians" were attacking the Army and that "Muslims" should go to the street to defend the Army.

In reaction to intense domestic and international criticism of the SCAF's response, the SCAF held a press conference on October 12 in which military leaders claimed that soldiers had been frightened by a hostile and threatening crowd of armed demonstrators. According to one Egyptian

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[14] Yasmine Fathi, "Egypt's political forces throw down gauntlet over 'supra-constitutional principles,'" *Al Ahram* (Cairo), November 13, 2011.

[15] For accounts of the day's events, see: "Why did Egypt's Army violently suppress Christian protesters?" *Christian Science Monitor*, October 10, 2011; Eric Trager, Action By Egypt's Military Rulers Against Copts Endangers Transition, POLICYWATCH #1858, The Washington Institute, October 11, 2011; Open Source Center, "Egypt: Ahram Online Says Plain Clothed Assailants, Armed Forces Attacked Copts," Cairo Ahram Online in English, October 9, 2011, Document ID# GMP20111010839002.

[16] This amateur YouTube video of televised coverage of the police response shows one APC attempting to disperse the crowd with one soldier appearing to fire his weapon at demonstrators. Available online at: [http://www.youtube.com/watch?v=UbUInFMZLNg]

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general, "I want you all to imagine, as parents would, the soldier in his vehicle now who sees the scene and wants to run for his life.... He sees a car burning, and if people jump out, the crowd beats him up severely, so this is not safe either. What can he do, other than try to drive his car out of this hell to safety?"[17] Within days of the attack, Egyptian media outlets reported that the cabinet is preparing to pass the long-awaited "Law on Unified Places of Worship" and to criminalize religious discrimination. However, Coptic Christians often assert that while legal reform is important, reinforcement of the rule of law is equally if not more critical for promoting real religious freedom in Egypt.

The Economy

Experts believe that post-revolutionary Egypt will reflect the population's long-standing rejection of unfettered capitalism, as neoliberal economic policies had become synonymous with corruption and the crony capitalism that flourished late in the Mubarak era. Revolutionary activists echoed popular criticism of the fact that politically well-connected persons often received generous bank financing and reaped the rewards of privatization deals, foreign franchise distribution rights, government contracts, and land deals. Nonetheless, few observers believe that Egypt can afford to return to its statist days, and leaders face the challenge of disentangling liberalizing reforms from Mubarak-era corruption.

Forecasters predict that the Egyptian economy will either contract by 2% or grow by only 1% in 2011. The SCAF has refrained from restructuring the economy in order to limit short-term pain for the majority of Egyptians, who have suffered since the revolution. The military also has deliberately postponed major economic reforms in order to wait for a newly elected civilian government to take on that responsibility. In the short term, the government has increased the fiscal deficit by raising public subsidies and wages in order to adjust to rising prices. During the summer of 2011, the military turned down loans from international financial institutions such as the International Monetary Fund (IMF) and the World Bank, citing discomfort over borrowing from the West. Instead, the government accepted aid packages from the Gulf states, including $3 billion from the UAE, $4 billion from Saudi Arabia, and $10 billion in investments from Qatar. Qatar is also offering a $500 million grant.

However, funds from the Gulf have yet to materialize, and Egypt's fiscal debt is growing at an alarming rate. While Suez canal revenues, remittances, and oil and gas revenues are steady, tax receipts and earnings from tourism are way down from 2010 levels (in 2011, foreign tourist visits are down 42% from the previous year). Debt service payments alone are estimated at $3 billion a year, and Egypt has been borrowing heavily from domestic banks putting their liquidity at risk as well should the country be unable to repay its debts. Egypt's credit rating has been downgraded twice in the fall of 2011. In October 2011, its net foreign reserves dropped to $22.07 billion from $24 billion the month before. Foreign reserves for October 2010 were $35.5 billion. Most experts believe that Egypt will need to start borrowing from international lenders at low long term rates in order to stabilize its fiscal situation. In November 2011, the Egyptian government reportedly may ask the International Monetary Fund for a $3 billion loan it rejected months earlier.

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[17] "Egyptian Generals Plead for Understanding After Death of Coptic Protesters," *New York Times*, October 13, 2011.

Recent Israeli-Egyptian Tensions

On August 18, a Gazan terrorist cell of the Popular Resistance Committees (an umbrella group comprised of various Palestinian terrorist organizations) traversed the Sinai into Israel and attacked Israeli vehicles and soldiers. The attackers killed eight Israelis, including two soldiers, and wounded 31 others. Israeli forces killed five terrorists, and Egyptian soldiers reportedly killed two more. However, Egyptian security officials said that five Egyptian police officers were killed when an Israeli aircraft fired at people suspected of being militants who fled into a crowd of security personnel on the Egyptian side of the border on August 18. The incident heightened Israeli-Egyptian tensions, as revolution in Egypt and the resentment toward Israel it unleashed had already strained diplomatic relations between both sides throughout 2011.

In response to the accidental killing of five Egyptian policemen, Egypt demanded an apology and compensation from Israel, as thousands of protesters demonstrated outside the Israeli Embassy in Cairo, burning an Israeli flag and demanding that the ambassador be expelled and the Embassy closed. Media reported that the Supreme Council of the Armed Forces (SCAF) briefly called for the ouster of the Israeli ambassador in Cairo and then recanted. Media also reported that in Cairo, a young man ripped down the Israeli flag from the Embassy building. Several days after the attack on August 18, an Israeli military delegation traveled to Egypt for talks with Egyptian officials, and Israel also issued two public statements of regret for the deaths of Egyptian soldiers/policemen. U.S. officials also have been conducting talks with Israelis and Egyptians in order to cool tensions.

In the days leading up to the August 18 attacks, reports indicated that Egypt and Israel had agreed (per terms of the 1979 peace treaty) to an Egyptian deployment of an additional 1,000 soldiers/policemen to the Sinai. That deployment was in response to recent militant attacks in the northern Sinai town of El Arish against police stationed there. On July 30, 2011, gunmen used rocket-propelled grenades to attack the cooling system on the pipeline that supplies natural gas to Israel. It was the fifth attack this year on the infrastructure Egypt uses to provide Israel with natural gas.

As a result of the August 18 attack, some lawmakers may insist that Egypt use its existing manpower resources in the Sinai more efficiently in order to prevent terrorist groups from staging future attacks inside Israel (the 1979 peace treaty limits the number of soldiers that Egypt can deploy in the Sinai). In July 2011, the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs marked up its FY2012 State-Foreign Operations appropriation, proposing that Egypt receive the full FY2012 request ($1.551 billion), including $1.3 billion in military aid, and that military aid should also be used for "border security programs and activities in the Sinai, with the expectation that the Egyptian military will continue to adhere to and implement its international obligations, particularly the Egypt-Israel Peace Treaty." Some Israeli media reports have indicated that some Israeli officials believe that Israel should consider amending its peace treaty with Egypt to allow the Egyptian Army to significantly increase its presence in Sinai in light of the deteriorating security situation there.

On Friday night September 9 and early Saturday morning September 10, tensions over the August 18 killing of five Egyptian soldiers by Israeli forces ignited new protests outside the Israeli Embassy in greater Cairo. During the night, demonstrators, many of whom were hard-core soccer fans (known in Egypt as "Ultras") directed their anger at the Egyptian police and at the Israeli Embassy building itself, breaching a recently erected outer wall before penetrating the inner

offices of the Embassy and trapping six Israeli guards holed up inside. Israeli officials reportedly sought U.S. assistance in securing immediate Egyptian intervention to rescue the Israeli guards. At about 5am on September 10, Egyptian commandos extricated the guards and escorted them to the airport, where they departed for Israel on an Israeli air force plane. By then, the Israeli Ambassador to Egypt along with Embassy staff had already left on another Israeli plane. According to Israeli Prime Minister Benjamin Netanyahu, "The fact that Egyptian authorities ultimately acted with determination is laudable.... That said, Egypt cannot conduct business as usual after this harsh blow to the fabric of relations with Israel and gross violation of international norms." Ten days later, Israeli diplomats were back at work, and many additional Egyptian police and soldiers surrounded the building for protection.

Several weeks after the Embassy incident, official Israeli-Egyptian relations temporarily improved. On October 11, Israel issued a formal apology to the Egyptian government and took responsibility for the shooting that killed five Egyptian policemen during terrorist attacks near Eilat on August 18. This apology coincided with news of the Egyptian-brokered release of Israeli Sgt. First Class Gilad Shalit. On October 18, after five years in captivity, Shalit returned to Israel after Israel and Hamas, with Egypt serving as a mediator, completed a prisoner exchange deal. In exchange for Shalit, Israel agreed to free a total of 1,027 Palestinian prisoners in two phases. Israeli leaders—who had previously rejected demands to release such a high number of prisoners—reportedly calculated that this might be the most auspicious time for a deal because Egypt would be less willing in the future to assist in negotiations should the Muslim Brotherhood or nationalist groups secure more power there in upcoming elections slated to begin November 28.

On October 27, 27-year-old Ilan Grapel, an American law student from Queens who also has Israeli citizenship and was arrested on espionage charges in Egypt in June, was released in exchange for 25 Egyptians held in Israel.

For Israel, its foreign policy toward Egypt is in a difficult phase. Now, more than ever, Israel depends on a positive relationship with the Egyptian military to ensure the preservation of the 1979 peace treaty. Though it expressed its concern over the storming of its embassy, Israeli officials were careful not to harshly criticize the SCAF.

U.S. Policy and Aid since the Revolution

U.S. policy toward Egypt, including the provision of aid, is a crucial issue following that country's revolution and ongoing transition from military to civilian rule. From 1948 to 2011, the United States has provided Egypt with $71.6 billion in foreign aid, including $1.3 billion a year in military aid from 1987 to the present. The Administration has requested $1.3 billion in FMF for Egypt in FY2012—the same amount it received in FY2011. The Egyptian military uses FMF aid for three general purposes: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts.

Though many Egyptians were highly critical of U.S. support for the Mubarak regime both before and during the revolution, some experts believe that years of continued U.S. aid to the Egyptian military succeeded in strengthening the one institution that has been capable of stabilizing Egypt during its delicate transition period as well as in building U.S.-Egyptian military-to-military relationships. Others assert that in retrospect the United States should have invested more

resources over the years in strengthening liberal democratic forces inside Egypt in order to better position itself for precisely the kind of post-revolutionary situation now underway in Egypt.

Past circumstances aside, the United States now faces the competing challenges of supporting a nascent government with both economic and democratic assistance while maintaining its traditional relationships with the military. Many policymakers believe that economic support is critical given the economic losses Egypt has incurred as a result of the unrest throughout 2011. However, the U.S. ability to provide large scale economic support has been constrained by growing concern over the U.S. deficit and lack of public enthusiasm for large scale foreign aid projects following years of U.S. reconstruction aid to Iraq and Afghanistan.

U.S. democracy assistance also faces competing pressures. On the one hand, some U.S. officials perceive a need for the United States to provide technical assistance to new political forces eager to compete in Egypt's open political landscape. However, Egypt's military leaders have vocally condemned long-standing U.S. democracy assistance programs and grants to Egyptian civil society organizations as unwanted meddling in Egyptian affairs. Some observers believe that the military has been deliberately attempting to discredit secular/liberal activists by portraying them as American agents for accepting U.S. technical assistance. Finally, now more than ever U.S. policymakers believe that U.S. military aid is needed to support continued Israeli-Egyptian peace given recent terrorist attacks inside Israel emanating from groups operating in the Sinai Peninsula. Critics may suggest that the Egyptian military has no alternative to maintaining the peace treaty as it remains qualitatively outmatched by the Israel Defense Forces and Egypt's fragile fiscal condition could not bear the international isolation that would likely accompany a return to a policy of confrontation with Israel.

As the United States grapples with how to respond to these contradictory pressures, it also is facing the prospect of dealing with an Egyptian government far more sensitive to popular political sentiment that at times may run contrary to U.S. priorities or desires. To many experts, the 2011 revolution may have completely changed the power dynamic between the United States and Egypt. Foreign aid may no longer be a lever of significant influence there, and U.S. policymakers may find themselves in greater competition with other foreign powers vying for influence inside Egypt. In light of all these competing pressures, the Administration has made several aid proposals for Egypt. In the weeks following the resignation of former President Mubarak, the Obama Administration reprogrammed $165 million in already appropriated economic aid for support to Egypt's economy ($100 million) and political transition ($65 million). In a speech delivered at the State Department on May 19, 2011, President Obama outlined a new plan for U.S. engagement with Arab countries such as Egypt. Major components of the plan announced by Obama include the following.

- Launch a $2 billion facility in the Overseas Private Investment Corporation (OPIC)[18] to support private investment across the region.

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[18] Increased OPIC funding for the MENA region is underway. In July 2011, OPIC committed $500 million for small business lending in Egypt and Jordan as part of this initiative ($250 million each). However, this project does not directly involve U.S. businesses. Instead, it provides guarantees for loans extended by local banks to local small- and medium-sized (SME) businesses, microfinance institutions, and similar institutions. USAID will provide grant funding and technical assistance to the initiative.

- Provide up to $1 billion in bilateral debt relief to Egypt, working with the Egyptian government to invest these resources to foster growth and entrepreneurship.

- Help Egypt regain capital market access by providing $1 billion in U.S.-backed loan guarantees needed to finance infrastructure and job creation.

- Work with Congress to create enterprise funds to invest in Tunisia and Egypt, modeled after funds that supported the transitions in Eastern Europe after the fall of the Berlin Wall. Enterprise funds focus on making loans to, or investments in, small- and medium-sized (SME) businesses in the fund's host country that other financial institutions are reluctant to invest in.

- Refocus the European Bank for Reconstruction and Development (EBRD) so that it provides the same support for democratic transitions and economic modernization in the Middle East and North Africa as it does in Europe.

- Launch a comprehensive Trade and Investment Partnership Initiative in the Middle East, working with the European Union (EU), to facilitate more trade within the region; build on existing agreements to promote integration with U.S. and European markets; and open the door for countries who adopt high standards of reform and trade liberalization to construct a regional trade arrangement.

S. 1601: The Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012

On September 22, 2011, the Senate Committee on Appropriations marked up the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012. The bill provides the full FY2012 $1.55 billion request for Egypt, but it does include some conditions. For FMF grants, the bill reads:

> **up to** [as opposed to "not less than" inserted in previous years] $1,300,000,000 shall be made available for grants only for Egypt, including for border security programs and activities in the Sinai: Provided further, That prior to the obligation of funds appropriated under this heading for assistance for Egypt, the Secretary of State shall certify to the Committees on Appropriations that the Governments of the United States and Egypt have agreed upon the specific uses of such funds, that such funds further the national interests of the United States in Egypt and the region, and that the Government of Egypt has held free and fair elections and is implementing policies to protect the rights of journalists, due process, and freedoms of expression and association.

Section 7039 of the bill authorizes FMF grants to be transferred to ESF. It also states that no funds in the bill may be provided to Egypt unless the Secretary of State certifies to the Committees on Appropriations that such government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.

S. 1601 also authorizes bilateral debt relief for Egypt and up to $60 million in ESF for Egypt to create an Enterprise Fund to support small and medium-sized businesses (SMEs). Section 7039 states that debt relief is only authorized after the Secretary of State certifies to the Committees on Appropriations that the Government of Egypt has held free and fair elections and is implementing policies to protect the rights of journalists, due process, and freedoms of expression and association.

Other Legislation

Other recent Congressional action on aid to Egypt includes the following.

- On July 27, 2011, the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs marked up its FY2012 State-Foreign Operations appropriation, proposing that Egypt receive the full FY2012 request ($1.551 billion), including $1.3 billion in military aid, and that military aid should also be used for "border security programs and activities in the Sinai, with the expectation that the Egyptian military will continue to adhere to and implement its international obligations, particularly the Egypt-Israel Peace Treaty." Section 7042 of the draft bill also provides up to $250 million in economic assistance to Egypt though it specifies these funds are not available until the Secretary of State certifies and reports to the Committees on Appropriations that the Government of Egypt is not controlled by a foreign terrorist organization or its affiliates or supporters, is implementing the Egypt-Israel Peace Treaty, and is taking steps to detect and destroy the smuggling network and tunnels between Egypt and the Gaza Strip. The bill further states that no U.S. economic assistance in the bill may be used to "reduce, reschedule, or forgive the debt of the Government of Egypt to the United States Government unless authorized for such purposes."

- On July 21, the House Foreign Affairs Committee marked up H.R. 2583, the Foreign Relations Authorization Act, Fiscal Year 2012. Section 951 of the bill would prohibit U.S. security aid to Egypt unless the President certifies that "the Government of Egypt is not directly or indirectly controlled by a foreign terrorist organization, its affiliates or supporters, the Government of Egypt is fully implementing the Israel-Egypt Peace Treaty, and the Government of Egypt is detecting and destroying the smuggling network and tunnels between Egypt and the Gaza Strip."

- On July 19, Senators Kerry, McCain, and Lieberman introduced S. 1388, the Middle East and North Africa Transition and Development Act. The bill finds, among other things, that the functions of the European Bank for Reconstruction and Development (EBRD) are consistent with the critical and rising economic needs of Egypt and the Middle East and North Africa. Overall, the bill would facilitate the EBRD's lending to the region should candidate countries meet certain criteria.

- Congress has introduced legislation in the House and the Senate to create enterprise funds in Egypt and Tunisia (H.R. 2237, S. 618. The House and Senate legislation have been referred to the relevant committees (House Committee on Foreign Affairs and Senate Committee on Foreign Relations). On March 17, 2011, the Senate Committee on Foreign Relations had a mark-up of S. 618, and on June 22, 2011, the bill was placed on the Senate calendar and became available for floor action.

- Section 2123 of P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, stipulates that no later than 45 days after the passage of the bill (the deadline was May 30), the Secretary of State shall submit a report to the Committees on Appropriations detailing whether a transparent, political transition is occurring in Egypt; whether laws restricting

human rights have been abrogated; and whether legal and constitutional impediments to free and fair elections are being removed.

- H.R. 1514 would limit aid to Egypt unless it is honoring its commitments under the 1979 peace treaty.

Table 1. U.S. Assistance to Egypt, FY2010-FY2012 Request

(Regular and Supplemental Appropriations; Current Year $ in millions)

Account	FY2010	FY2011	FY2012 Request
ESF	250.0	249.5	250.0
FMF	1,300.0a	1,297.4	1,300.0
IMET	1.900	1.400	1.400
INCLE	1.000	1.000	.250
NADR	2.800	4.600	5.600
Total	1,555.7	1,553.9	1,557.25

Source: U.S. State Department

[a] Congress provided $260 million of Egypt's total FY2010 FMF appropriation in P.L. 111-32, the FY2009 Supplemental Appropriations Act. The remaining $1.04 billion was appropriated in P.L. 111-117, the FY2010 Consolidated Appropriations Act.

Table 2. 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	249.5	1,297.4	1.4	1,548.3
Total	**31,070.3**	**40,509.2**	**43.14**	**71,623.9**

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
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	2332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8

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
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 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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