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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 information on U.S. foreign aid to Egypt.

The United States has provided significant military and economic assistance to Egypt since the late 1970s. U.S. policy makers 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 March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have publicly characterized Egypt's government as generally influencing developments in the Middle East in line with U.S. interests.

U.S. policy makers 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 113<sup>th</sup> Congress.

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## Overview

Since the Egyptian military ousted former president Mohammed Morsi in July 2013, the military-backed interim government, with strong financial support from the Arab Gulf states, has cracked down on the Muslim Brotherhood and other political dissenters in an attempt to restore “normalcy” after two-and-half years of protest, unrest, and rapid political change. The military claims to have public support for this approach, and many observers suggest that its crackdown, coupled with public fatigue from the social unrest, has undermined support for mass anti-government activity. Nevertheless, challenges remain, as an Islamist insurgency rages in the Sinai Peninsula, personal freedoms such as the right to freely protest have been curtailed by law, and the economy continues to stagnate, with the government running massive fiscal deficits. Moreover, the long-term status of the Muslim Brotherhood is uncertain, and many observers fear that its younger members could turn to violence if the group is excluded from political life. Egypt is poised to conduct a referendum on a new constitution as well as presidential and parliamentary elections in 2014, and the next government will have to grapple with these challenges. Decision makers in the United States are expected to monitor developments in Egypt closely as they continue to debate the future of Egyptian-U.S. relations.

Egypt’s strategic importance and its long history of close consultation and collaboration with the United States make its domestic political stability a matter of significant importance for U.S. national security interests. As discussed below, Congress and the Obama Administration are engaged in an ongoing debate regarding the extent to which U.S. military and economic assistance to Egypt—which generally totals about \$1.55 billion annually—should continue and/or be subject to various conditions and/or existing legal restrictions.

Figure I. Egypt at a Glance



## Background: From President Morsi to General Sisi

Egypt's political system has been in flux since the forced resignation of former President Hosni Mubarak in February 2011. Since then, the country has been directly ruled by the military (or SCAF—the Supreme Council of the Armed Forces), followed by a democratically elected president who hailed from the Muslim Brotherhood (Mohamed Morsi), and now a transitional government that took over after the military ousted Morsi in July 2013. When former President Morsi took office on June 30, 2012, after winning Egypt's first competitive presidential election, his ascension to the presidency was supposed to mark the end of a rocky 16-month transition period. During this period, proposed timelines for elections, the constitutional drafting process, and the military's relinquishing

of power to a civilian government were constantly changed, contested, and sometimes even overruled by the courts.

Former president Morsi won international recognition as Egypt's first free and fairly elected president when he won a June 2012 run-off election with 51.7% of the vote against an ally of former president Hosni Mubarak. Many Egyptians beyond the Islamist camp voted for Morsi, but by the time of his ouster in July 2013, he had developed a reputation both at home and abroad for failing to either deal effectively with the economy and for seeking to concentrate Islamist power at the expense of other segments of Egyptian society. According to Gallup, 80% of Egyptians interviewed shortly before Morsi was removed from office said their country was worse off than it had been before President Hosni Mubarak resigned in 2011.<sup>1</sup> By July 2013, economic growth had stalled, prices on food and fuel had increased, and fuel shortages had caused frustration for many citizens. Moreover, crime had dramatically increased due to police shortages. In Morsi's defense, many of his supporters argued that elements of the former Mubarak regime had undermined his administration's efforts on these issues from the moment he took office.

The Morsi Administration continually clashed with opposition political parties and the judiciary, perhaps at least in part due to a suspicion within his government that there was a conspiracy against his rule. It also engendered resentment from many Egyptians for the 2012 constitution it adopted through a process that empowered various Islamist groups at the expense of secularists and minorities. Morsi's unilateral declaration in November 2012 claiming his immunity to judicial oversight was a major turning point in sparking opposition to his rule, despite his later retraction of this claim. Additionally, many Coptic Christians had grown concerned that Islamist rule would lead to heightened sectarian conflict, particularly after a mob attacked a funeral procession at the main Coptic Cathedral in Cairo in April 2013. Clashes, resentments, and mutual suspicions created a poisoned political atmosphere in which military leaders decided to remove him from rule.

### **July 3: The Military Ousts Morsi**

On July 3, 2013, following several days of mass demonstrations against Morsi's one-year rule, the Egyptian military unilaterally dissolved Morsi's government, suspended the constitution that had been passed during his rule, and installed the Chief Justice of the Supreme Constitutional Court, Judge Adli Mansour, as interim president pending a new election. In the days preceding the July 3 takeover, hundreds of thousands of Egyptians had flooded the streets of Cairo and elsewhere demanding Morsi's resignation, and clashes between the president's supporters and opponents had periodically turned deadly. The military, led by Defense Minister General Abdul Fatah al Sisi, claimed that it had repeatedly encouraged Morsi to reconcile with his opponents to no avail. Sisi claimed that the military did not seek to rule the country directly. He empowered interim President and Chief Justice Mansour to issue constitutional declarations, establish a government of "technocrats," and form a commission to propose amendments to the constitution.

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<sup>1</sup> "Egyptians See Life Worse Now Than Before Mubarak's Fall," *Gallup*, August 16, 2013.

### Arab Aid to Egypt after the “Coup”

To date, the Egyptian government has been unable to self-finance its massive annual fiscal deficit, estimated somewhere between 11% and 13% of GDP, which is nearly double what it was five years ago and the highest since 2002.

Expenditures support a massive state bureaucracy as well as inefficient but popular subsidies on energy and food. In 2012, the state collected \$19.7 billion in revenues but spent \$30.5 billion. In 2013, the deficit has reached nearly \$3.2 billion per month. The government had borrowed from domestic banks and drawn down foreign currency reserves to finance the deficit, but has now had to turn to foreign creditors for more funds. During former President Morsi’s tenure, Egypt received \$13 billion in loans and grants from Islamist-friendly governments in Qatar, Libya, and Turkey. (The military-led government has since returned a portion of these funds.)

The infusion of an additional \$12 billion in aid from Saudi Arabia, the United Arab Emirates, and Kuwait is expected to provide Egypt with 6 to 12 months of breathing space.<sup>2</sup> However, the real challenge for the new government will be to finalize and implement an economic reform plan that reduces the deficit while also stimulating growth. Many analysts speculate that instead, Egypt’s interim government will simply continue to spend heavily on subsidies and salaries while seeking additional foreign financing to sustain the budget. According to Farouk Soussa, chief Middle East economist for Citigroup, “The task of the interim government is not to make difficult reforms. It is to manage the crisis and to restore Egypt’s relations with the international community.”<sup>3</sup>

Egyptian authorities and the International Monetary Fund (IMF) have been in negotiations for more than two years over an IMF loan to Egypt in exchange for policy reforms to no avail. For additional background on the Egyptian economy and the IMF, see CRS Report R43053, *Egypt and the IMF: Overview and Issues for Congress*, by Rebecca M. Nelson and Jeremy M. Sharp.

The Muslim Brotherhood declared the military’s actions illegal, calling it a coup d’etat. On August 14, Egypt’s military and national police launched a violent crackdown against the Muslim Brotherhood, whose supporters, having formed the “Anti-Coup Alliance,” had been continually demonstrating since the military’s July 3 ouster of former president Mohamed Morsi. In the six-week period between the military’s alleged “coup” and the crackdown, Egypt’s military-backed interim leaders moved to assert their political authority, while supporters of Morsi staged mass demonstrations around the country in defiance of military orders to desist. Prior to the violent tactics employed by the military on August 14 to clear protest hubs, security forces used lethal force on two earlier occasions, July 8 (53 protestors killed) and July 27 (81 protestors killed).

As debate and discord deepened, two pro-Morsi sit-in protests in greater Cairo (at Rabia al Adawiya Square and at Nahda Square near Cairo University in Giza) became the focal points for tense political and security negotiations between the military and the Brotherhood. U.S., European, and Arab government intermediaries had sought to reach a compromise between the sides in order to avoid further bloodshed, ultimately without success. General Sisi and the officers around him may have calculated that they could withstand the international condemnation that would follow from the use of lethal violence against the Brotherhood. The military may also have calculated that it could succeed in suppressing the Brotherhood by force rather than accepting its presence as a legitimate Egyptian political movement. Egypt’s military repeatedly warned before August 14 that it would forcibly clear the two massive protestor encampments. It also subsequently warned that the Brotherhood may be legally banned from the Egyptian political system.

During the August 14 crackdown, the military and police used lethal force, killing at least 578 people. The military denounced Morsi supporters as “terrorists,” and the interim government re-imposed martial law (known as the Emergency Law), giving authorities broad legal powers to detain citizens and try them before military courts (they then lifted this law in November 2013 and replaced

<sup>2</sup> “Egypt Faces Moment of Reckoning on its Economy as Protests Wane,” *FinancialTimes.com*, July 11, 2013.

<sup>3</sup> “New Egypt Government may promote Welfare, not Economic Reform,” *Reuters*, July 17, 2013.

it shortly thereafter with a protest law). The military also imposed a national curfew at that time. The Muslim Brotherhood, with many of its leaders now imprisoned, has vowed to continue its campaign of civil disobedience, though some of its supporters have reportedly armed themselves, rioted, and even used violence against Egyptian authorities, killing several. Additionally, some Brotherhood members reportedly burned government buildings and Coptic churches. Several prominent Brotherhood leaders, including former president Morsi, are on trial for murder and/or inciting violence, and several others have lost children or other family members in clashes with police. Authorities have shut down Brotherhood-run media, arrested hundreds if not thousands of the movement's members, and frozen its assets. In September 2013, an Egyptian court ruled that the Muslim Brotherhood association itself is an illegal organization.<sup>4</sup> Since its inception in 1928, the Brotherhood has often conducted a full range of activities on an underground basis despite being formally outlawed.

## Domestic Politics: A Military-Led Transition

On July 8, 2013, interim President Adli Mansour issued a new constitutional declaration outlining the latest Egyptian transitional process. This declaration is supposed to serve as the country's legal framework until a more permanent constitution emerges. According to Mansour's declaration, Egypt's currently suspended constitution, which was originally approved during Morsi's rule,<sup>5</sup> will be amended and then submitted to a public referendum for approval. According to the 33-article document:<sup>6</sup>

- **Legislative Power:** Until a lower house of parliament is elected, the president will possess legislative power and his cabinet has been given a "mandatory consultative role."
- **Constitutional Amendment Process:** A committee of presidential appointees, judges, and professors will have 30 days to amend the 2012 constitution. Draft amendments will then be forwarded to a second, larger committee which will have 60 days to finalize a draft. That draft will then be submitted to the president, who must put the amended version of the constitution to a national referendum within 30 days of receiving it.
- **Parliamentary and Presidential Elections:** Once a constitution is approved by the public, the president must call for parliamentary elections within 15 days. At that point, actual parliamentary elections must occur within two months. Within one week of the start of the first session of the new parliament, preparations for holding a presidential election are to begin (with an election perhaps occurring in the winter of 2014). However, the draft constitution currently under review does not specify the order of parliamentary and presidential elections, leading some observers to estimate that presidential elections may ultimately be held first. The authority to

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<sup>4</sup> The legality of the Muslim Brotherhood's political party, the Freedom and Justice Party (FJP), is under judicial review. In November 2013, a panel of Egyptian judges recommended that the FJP be dissolved, though their decision is non-binding. A binding court decision determining whether the formation of the FJP violates a law banning the formation of religious parties could come in the winter of 2014.

<sup>5</sup> The suspended constitution was approved by referendum in 2012 after a drafting process dominated by the Muslim Brotherhood and the Salafist Nour Party.

<sup>6</sup> See, "Egypt's Constitutional Declaration Issued, defines Transitional Period," *Al Ahram Online*, July 8, 2013.

make that decision rests with Mansour, who stated in late December 2013 that holding the presidential vote first would be legal.

## **The 2013 Constitution**

The current interim government, which includes several Mubarak-era officials, is overseeing the rewriting of the constitution, which has already been amended twice since 2011 (in April 2011 and December 2012). A 50-person committee, led by former presidential candidate and foreign minister Amr Moussa, has completed drafting amendments and submitted them to interim President Adly Mansour on December 2. On January 14, 2014, the country is expected to hold a referendum on its adoption.

The draft would enshrine the autonomy of the military from civilian oversight. Article 234 requires that the military approve the defense minister for the next two presidential terms (eight years). Article 201 stipulates that the defense minister must be an officer from the military, and Article 203 would create a military-dominated National Defense Council, which would have exclusive oversight over the military's budget. The draft also would create a Supreme Police Council, which must be consulted on laws affecting the police.

The draft constitution would ban political activity based on religion, a blow to Islamist political parties such as the Muslim Brotherhood and the Salafist Nour Party. Ultimate authority to ban political parties under the draft constitution lies with the judiciary.<sup>7</sup> According to one expert, Article 237 empowers the state to fight "all types and forms of terrorism," giving security forces a free hand in cracking down against the Muslim Brotherhood or other opponents that they label as terrorists.<sup>8</sup>

The draft addresses the issue of rights for women and religious minorities. Article 11 states that "the state shall ensure the achievement of equality between women and men in all civil, political, economic, social and cultural rights in accordance with the provisions of the constitution." Article 3 of the draft constitution explicitly states that the religious laws of Egyptian Christians and Jews are their primary source of legislation on personal status issues (this language had been included in the 2012 constitution). The draft document also allows for complete freedom of worship, making it "absolute" (as it was written in the 1971 constitution) versus "protected" (as it was written in the 2012 constitution).<sup>9</sup> Moreover, the new draft includes an Article, 235, requiring parliament to write a law on church restoration. The draft also mandates parliamentary representation of Christians (Article 244), though the precise proportion of Christian representation would be "subject to current law."<sup>10</sup>

Overall, many experts argue that the amended constitution does emphasize the secular rather than the religious nature of the Egyptian state, but does not provide for civilian oversight of the military. According to a U.S. scholar with expertise on Egypt's constitution, "Yet for all its daring, it seems unlikely that Egypt's 2013 constitution will counteract the authoritarian practices that never disappeared and that are once again becoming thoroughly routinized in Egyptian political life.

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<sup>7</sup> Nathan Brown and Michelle Dunne, "Egypt's Draft Constitution Rewards the Military and Judiciary," *Carnegie Endowment for International Peace*, December 4, 2013.

<sup>8</sup> Eric Trager, "Egypt's New Constitution: Bleak Prospects," The Washington Institute, *PolicyWatch 2183*, December 16, 2013.

<sup>9</sup> "29 things you need to know about Egypt's Draft Constitution," *Al Monitor*, December 4, 2013.

<sup>10</sup> Khalil al-Anani, "A Q&A on Egypt's New Draft Constitution," Middle East Institute, December 04, 2013.

Critical state actors—the military and the security forces most obviously—will not be hamstrung or held accountable according to the text produced.”<sup>11</sup>

### **Is Egypt’s Experiment with Democracy Over?**

After youth demonstrators forced President Hosni Mubarak to resign in February 2011, a chorus of young Egyptians claimed that there was no “going back” to authoritarianism. However, more recently many observers have noted that the interim government backed by the military (with significant public support) is testing the political system’s ability to roll back democracy. The interim cabinet contains several Mubarak-era appointees, and many newly appointed provincial governors are former officers. The interior ministry has reinstated police officers and departments that had been disbanded after the downfall of the Mubarak regime for committing human rights violations. The government has passed a controversial protest law, which would require pre-notification of any planned protests, outlaw protest encampments, and empower the interior ministry to cancel demonstrations. Currently, many observers are questioning if there are limits to how far the security establishment can roll back personal freedoms following the so-called Arab Spring. In Egypt, many groups have acquiesced to the military’s crackdown on the Muslim Brotherhood, but have vocally condemned attempts to broaden the scope of government suppression to other groups. University campuses have become hotbeds of protest, and the government has begun arresting non-Islamist activists for violating the new protest law.

On December 23, the U.S. State Department issued the following statement on the government’s continued crackdown against and imprisonment of activists:

The United States is deeply concerned about the worsening climate for freedom of assembly and peaceful expression in Egypt. The implementation of Egypt’s restrictive demonstrations law has led to an increase in arrests, detentions, and charges against opposition figures, human rights activists and peaceful demonstrators, and sends a chilling message to civil society at large. In particular, we believe that the verdicts issued December 22 do not contribute to an open electoral environment or a transition process that protects the universal rights of all Egyptian citizens, and therefore should be reviewed. We continue to urge the government to fulfill its commitment to implement an inclusive democratic transition, including by permitting an open environment in which Egyptians are free to campaign and vote in favor or against the draft constitution on January 14-15, or abstain from the process entirely.<sup>12</sup>

## **Ongoing Violence Throughout Egypt**

Since the military’s July 3 ouster of former President Morsi, Egypt’s tumultuous post-Mubarak period has become even more violence-plagued, though instability has yet to reach levels seen elsewhere in the region, such as in Syria or Iraq. Nevertheless, Egypt appears to be in a pattern of state suppression of Brotherhood sympathizers triggering Islamist elements (some of which appear more extreme than the Brotherhood) to counterattack against state security, either on the Egyptian mainland or in the Sinai Peninsula. Moreover, extremists also have scapegoated Coptic Christians for their perceived support of the military’s alleged coup and have carried out attacks in Coptic villages and against Coptic churches. There is no verifiable death toll to account for the numbers of Egyptians killed since July 2013, though numerous media reports suggest that, at a minimum, over 1,200 protestors and police were killed between then and the end of 2013.

Throughout the 1990s, Egypt faced an Islamist insurgency that targeted the security forces, high-level officials, and foreign tourists; in recent months, it would seem that elements of that insurgent campaign have resurfaced not only in the Sinai Peninsula (see below) but in the Egyptian mainland. In September 2013, assailants attempted to assassinate Interior Minister Mohamed Ibrahim when a car bomb exploded near the minister’s convoy, killing one police officer and a civilian and

<sup>11</sup> “Egypt’s Daring Constitutional Gang of 50,” *ForeignPolicy.com*, September 20, 2013.

<sup>12</sup> “Jail Sentences Handed Down for Peaceful Demonstrators in Egypt,” Press Statement Jen Psaki, Department Spokesperson, Washington, DC, December 23, 2013.

wounding more than 20 others. That same month, gunmen killed an Egyptian police general and wounded 10 other policemen in a police operation in the town of Kardasa. In October 2013, masked gunmen in the Suez Canal city of Ismailia fired on an army patrol, killing six soldiers. In November 2013, unidentified gunmen killed an interior ministry officer outside his home. In December 2013, a car bomb exploded at a police headquarters building in the Nile Delta city of Mansoura, killing 16 people. Days later, the government blamed the Muslim Brotherhood and designated it a terrorist group.

## **Securing the Suez Canal**

Since the July 3 ouster of former president Morsi, heightened violence throughout Egypt has raised concern over the safety of the 120-mile Suez Canal, a vital international waterway important to global commerce,<sup>13</sup> U.S. naval operations worldwide,<sup>14</sup> and Egypt's economy.<sup>15</sup> In August 2013, terrorists using machine guns and rocket-propelled grenades fired on a container ship while it transited the canal. Although no damage was reported, there is some concern that additional incidents could degrade international confidence in the Egyptian military's ability to secure the canal. The Egyptian military has responded to the attack and general violence in the areas by investing in additional security surveillance, bolstering its troop presence, and constructing a security fence adjacent to the canal.

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<sup>13</sup> An estimated 7% to 8% percent of global sea-borne trade, including oil and natural gas, passes through the Suez Canal each year. For container ships carrying Asian exports abroad, transiting the Suez Canal is the quickest route between Asia and Europe.

<sup>14</sup> The United States Navy is granted expedited passage through the canal and, according to the U.S. Fifth Fleet based in Bahrain, approximately 35 to 45 U.S. naval vessels, including nuclear-powered aircraft carriers, pass through the canal each year. Transiting the Suez Canal is the fastest route for Atlantic-based U.S. warships to reach the Persian Gulf. Without access to the canal, warships would need to sail either around the Cape of Good Hope in Southern Africa or take the Pacific route, adding significant sailing time to the journey. According to Michael O'Hanlon, a senior fellow at the Brookings Institution, "to be sure, one can reach the Persian Gulf faster from Norfolk or Jacksonville, Fla., than from California or Washington state - if the Suez is available. The distance via the Atlantic route is about 6,000 miles; the distance via the Pacific route is about twice that. At a comfortable cruising speed, the sailing time is roughly 10 to 12 days vs. 20 to 24." See, "Suez access is Nice, but not a Must," *Washington Post*, August 23, 2013.

<sup>15</sup> The Suez Canal generates an estimated \$5 billion a year in revenue from tolls, a vital source of foreign exchange for the Egyptian state treasury. However, during the past two and half years of instability in Egypt, the "Canal cities" of Port Said, Ismailia, and Suez have been the scene of repeated unrest and violence, with some demonstrators targeting the Suez Canal Authority, the agency that manages the Canal. According to one resident of Ismailia, "I don't feel any benefits from Suez Canal revenues.... The services of the Canal Administration benefit only its employees in terms of hospitals, social clubs and other services. This is despite the danger we could face due to any accidents in the waterway, since nuclear-powered ships pass through." See, "As Suez Cities burn, Canal Shipping Sails on, for now," *Reuters*, January 29, 2013.

**Figure 2. The USS Dwight D. Eisenhower Transiting the Suez Canal**

**Source:** Graphic created by CRS using photograph from the Navy Office of Information and data from Esri and Google Maps.

## Insurgency in the Sinai and the Risks for Israeli-Egyptian Peace

### Background

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. Combating terrorism in the Peninsula is complex since Egypt is limited in fully enforcing its rule over the area.<sup>16</sup> The 1979 Israeli-Egyptian peace treaty limits the number of soldiers that Egypt can deploy in the Sinai, 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.<sup>17</sup>

The complex forces fueling Sinai-based militarism are both historically rooted and related to recent developments in the region. During the Mubarak regime, Bedouins in the Sinai resented corrupt business dealings between government officials and businessmen with personal ties to Mubarak seeking to develop beach tourism in southern Sinai and natural gas pipelines across northern Sinai.<sup>18</sup> Bedouin tribes asserted that no infrastructure investment was channeled toward their areas and that the legal system precluded many Bedouin from attaining land rights. Moreover, Bedouins often did not secure employment in either the tourist or energy sectors. Overall, many residents from local

<sup>16</sup> Since Israel returned control over the Sinai to Egypt in 1982, the area has been partially demilitarized per the terms of the 1979 Israeli-Egyptian Peace Treaty, and the Sinai has served as an effective buffer zone between the two countries. The Multinational Force and Observers, or MFO, are deployed in the Sinai to monitor the terms of the Israeli-Egyptian peace treaty.

<sup>17</sup> Article IV (4) states, "The security arrangements provided for in paragraphs 1 and 2 of this Article may at the request of either party be reviewed and amended by mutual agreement of the Parties."

<sup>18</sup> "The State of Sinai (II): Backyard for Business Bandits," *Al-Akhbar* (Beirut), August 22, 2012.

tribes have described being treated as second-class citizens, while government officials often claim that Sinai Bedouin cherish their local autonomy.

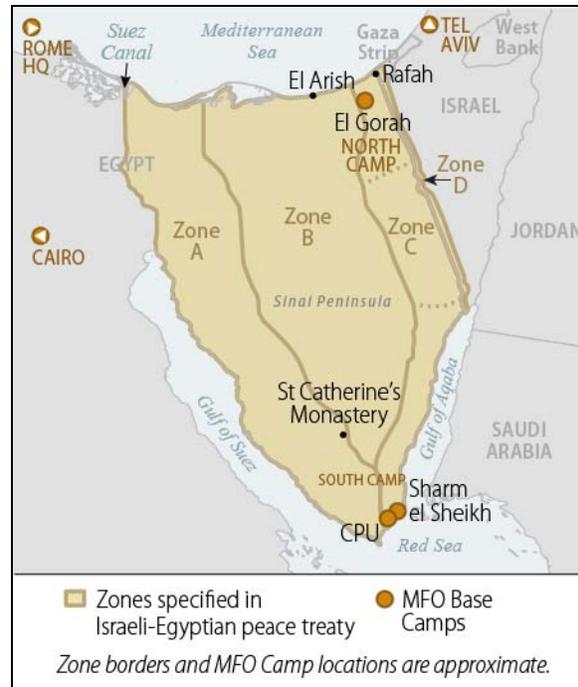
In the past years of Mubarak's rule, the problems of a neglected Peninsula became harder to ignore even though both Israel and Egypt continued to cooperate and uphold demilitarization. Several terrorist bombings against tourist areas in the Sinai occurred between 2004 and 2006 (killing nearly 130 people). In response, police authorities often detained local suspects in large numbers and for prolonged periods of time, thus breeding resentment and revenge attacks against police in the area. Instead of focusing on development, authorities responded to security incidents in the Sinai using solely military measures, which possibly contributed to alienation and radicalization of Sinai residents.

In 2007, Hamas, the Palestinian-Islamist terrorist group/political movement, took control over the neighboring Gaza Strip, and Israel and Egypt, in order to keep Hamas contained, subsequently sought to geographically isolate Gaza, creating a soaring demand for smuggled goods and weapons that local Bedouin provided. Palestinians in Gaza and Sinai Bedouin Arabs in Egypt used and expanded a decades-old network of underground tunnels beneath the Gaza-Egypt border to smuggle weapons to Hamas and other Palestinian militant groups. Overall, the increase in the smuggling trade into Gaza brought more weapons into the Peninsula and on occasion created tensions between Israel and Egypt, with the former demanding that the latter improve its monitoring and anti-smuggling interdiction along the Gaza-Egyptian border.<sup>19</sup>

The 2011 Egyptian overthrow of the Mubarak government dramatically accelerated the militarization of the Sinai and the general breakdown of law and order there. When former president Mubarak resigned, many policemen stationed in the Sinai abandoned their posts, and some convicts who managed to escape from prison during the chaos sought refuge in the Sinai. Moreover, the end of the Mubarak government emboldened Sinai Bedouin and Palestinian militants from the Gaza Strip, leading to increased border smuggling and terrorist operations in the area. Finally, the 2011 Libyan civil war and the downfall of the Gaddafi regime next door to Egypt led to a dramatic influx of Libyan weapons available on the arms market, with Bedouin smugglers in the Sinai well positioned to sell them either locally or to Gazan militants.

<sup>19</sup> When Israel unilaterally dismantled its settlements and withdrew its troops from the Gaza Strip in August 2005, it negotiated a new security arrangement with Egypt to bolster efforts to secure the Egyptian side of Rafah. After extensive Israeli-Egyptian talks, Egypt deployed 750 border guards to secure the Philadelphi Route. The memorandum of understanding between Israel and Egypt delineated the type of equipment the Egyptians may use (small arms and jeeps, no heavy armor) and the length of the patrol area (14km on the ground and 3 km into the sea). Since then, Israel and Egypt have periodically agreed to temporarily increase Egypt's troop presence on the border.

**Figure 3. The Sinai Peninsula**



Source: <http://www.mfo.org>

Between 2011 and 2012, Bedouin criminal networks and terrorist groups increased their human trafficking of African migrants into Israel,<sup>20</sup> drug and weapons smuggling, armed robbery and kidnapping of foreign tourists, and bombing of gas pipelines. However, of utmost importance to regional security was how terrorist attacks emanating from Gaza or the Sinai jeopardized Israeli-Egyptian relations. On August 18, 2011, a Gazan terrorist cell apparently traversed the Sinai, crossed into Israel, and attacked both civilian and military targets—killing 8 and injuring 31. In hot pursuit of the perpetrators across the border, Israeli and Egyptian forces reportedly killed 7 attackers, but an Israeli aircraft also killed 5 Egyptian police officers, apparently by mistake. After that incident, protestors stormed Israel's embassy outside of Cairo, and only after U.S. urging did Egyptian commandos rescue Israeli diplomats trapped inside their own compound.

After the August 18 attacks, Israel issued statements of regret for the accidental killing of Egyptian soldiers, while also criticizing the Egyptian military for ignoring the situation in the Sinai. According to then Israeli Defense Minister Ehud Barak, “The attacks show that Egypt is losing its grip over the Sinai.” In response to rising militancy in the Sinai, the Egyptian military launched “Operation Eagle” and deployed additional soldiers and armored personnel carriers to the Sinai.

A year later, on August 5, 2012, 35 unidentified gunmen attacked Egyptian troops stationed near the Israeli-Egyptian-Gaza border, killing 16. The gunmen then seized several vehicles and proceeded to attack the Israel-Gaza Kerem Shalom crossing just over the Egyptian border, before being thwarted by Israeli forces. The Israeli government, which has been repeatedly warning Egypt about the security situation in the Sinai, called the attack a “wake up call” for Egypt. In the days following the attack, Egypt's military, in order to demonstrate its resolve, avenge the killing of its soldiers, and stabilize the area, relaunched “Operation Eagle,” using air power in the area for the first time in nearly four decades. Egypt also temporarily closed its border crossing with Gaza, and the army deployed armored vehicles including tanks and Apache helicopters to the Sinai. Some Israeli leaders publicly expressed concern over Egypt's deployment of heavy equipment, particularly tanks, into demilitarized zones, claiming that some Egyptian deployments were not coordinated with Israel. In early September, one Egyptian military official stated that “Egypt is coordinating with the Israeli side over the presence of Egyptian armed forces in Sinai. They know this.... The deployment of the armed forces on all the territory of Sinai is not a violation of the peace treaty between Egypt and Israel.”<sup>21</sup>

During the one-year rule of former president Mohamed Morsi, the former Muslim Brotherhood leader took a less confrontational approach toward the Sinai, emphasizing development and dialogue, much to the dismay of the Egyptian military. Morsi's government conditionally permitted Sinai Bedouin to purchase or rent land, though according to one report, “the military also worried that Morsi was giving a free hand to Islamic militants in the Sinai Peninsula, ordering [then defense minister] Sisi to stop crackdowns on jihadis who had killed Egyptian soldiers and were escalating a campaign of violence.”<sup>22</sup>

Since the Egyptian military's ouster of former President Mohamed Morsi on July 3, and in particular since the violent police crackdown against Morsi's mostly Islamist supporters in mid-August, Islamist radical groups in the Sinai have waged an insurgency against the security services. Militants

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<sup>20</sup> See, “Egypt: End Sinai Nightmare for Migrants, Target Traffickers Who Detain, Torture, Sexually Assault Hundreds,” *Human Rights Watch*, September 5, 2012.

<sup>21</sup> “Egypt, Israel coordinating on Sinai security sweep-army,” *Reuters*, September 8, 2012.

<sup>22</sup> The Root of Egypt's Coup: Morsi giving free hand to Sinai Islamists,” *Associated Press*, July 18, 2013.

from an array of loosely organized, al Qaeda-style groups<sup>23</sup> have attacked police and army checkpoints and facilities, employing terrorist and guerilla warfare tactics. In August 2013 in northern Sinai, militants executed 25 police conscripts on a roadside after attacking their two buses, which were headed toward the border town of Rafah. The attack marked the single deadliest incident against security forces in the Sinai since the July 3 ouster of former president Morsi.

The Egyptian military has responded by launching a counter-offensive, particularly in northern Sinai, in order to root out militants who have taken refuge in villages and in the rugged Sinai terrain. The army has deployed Apache helicopters, tanks, and armored personnel carriers into de-militarized areas<sup>24</sup> with Israeli permission and in coordination with the Multinational Force of Observers (MFO), which monitors force deployments. In addition, Egyptian forces have displayed a greater commitment since the ouster of Morsi to destroying smuggling tunnels that traverse the Egyptian-Gaza border and establishing a buffer zone that would reduce smugglers' abilities to reestablish operations and evade official countermeasures. Reports from inside the Gaza Strip suggest that consumer prices have risen dramatically there due to the curtailment of smuggling. How enduring these operations will be, and how they might be coupled with related economic and political measures, remains uncertain, and is one area of interest for U.S. policymakers.

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<sup>23</sup> There is no known precise number of Islamist fighters operating in the Sinai, and estimates vary widely from 500 to perhaps as many as 5,000. Press reports describing Sinai-based militant groups name the following organizations: Al-Tawhid Wal Jihad, Mujahedeen Shura Council, Ansar Bayt al Maqdis, Ansar al Jihad, and the Egypt Free Army.

<sup>24</sup> The areas are de-militarized pursuant to Egypt's 1979 peace treaty with Israel.

### Israel and the Challenge of Containing the Sinai

As the threat of Sinai-based terrorism has grown, Israel has faced rocket attacks against the Red Sea city of Eilat and terrorist attacks near and along its 165-mile border with Egypt. In order to manage and contain these threats, Israel has completed construction of a barrier along the length of the border that includes surveillance equipment and radar. According to one report, Israel's Southern Command also has enhanced its field intelligence capabilities along the border.<sup>25</sup> In July 2013, following the Egyptian military's ouster of former president Morsi, Israel deployed an Iron Dome anti-rocket system in and around Eilat. A month later, the Iron Dome system successfully intercepted an incoming rocket fired at Eilat from the Sinai.

However, while Israel may take unilateral action to enhance its security along its border with Egypt, it must also calculate how any military steps it may take in its defense affects its relationship with its Egyptian neighbor. The Sinai Peninsula is sovereign Egyptian territory, and any foreign incursion there could have political ramifications for the Egyptian government and military. In August 2013, news reports alleged that Israel may have conducted a drone strike in the Sinai against a rocket-equipped terrorist cell based there (Israel has not confirmed or denied these reports). Moreover, further incidents in the Sinai that cause friction between Israel and Egypt could create a pretext for political forces in Egypt to denounce the 1979 peace treaty and demand its abrogation or amendment, a possibility that would run counter to Israeli interests.

For now, it would appear that the Egyptian military and the Israeli government share a common purpose in combating terrorism in the Sinai. In the long term, their challenge may be to quietly sustain their cooperation in stabilizing the area without further antagonizing Sinai residents or attracting foreign fighters who are eager to wage an insurgent campaign against their perceived enemies.

## U.S. Policy Toward Egypt

### Overview

For the United States and Egypt, core aspects of the bilateral relationship remain intact, but disputes remain over other areas of potential cooperation. Fundamentally, the United States views Egypt as a potentially stabilizing force in the Middle East and a partner in helping the U.S. military project power globally.<sup>26</sup> The Obama Administration, like administrations before it, seeks a stable Egypt that remains at peace with Israel per the existing terms of the 1979 Israeli-Egyptian peace treaty. It also seeks Egypt's cooperation in preventing non-state networks and terrorism in the Sinai Peninsula from destabilizing the region, as well as in brokering talks between Palestinians and Israelis. More broadly, the Administration and Congress also expect Egypt to continue its military and intelligence cooperation with the United States and facilitate expedited transit through the Suez Canal for U.S.

<sup>25</sup> "The Sinai dilemma. Unlike in Gaza, Israel can't openly carry out counterterrorism strikes in the peninsula," *The Jerusalem Post*, August 11, 2013.

<sup>26</sup> According to Robert Springborg, a professor of national security affairs at the Naval Postgraduate School in Monterey, Calif., "A brief look at a map reveals that Egypt is the only secure maritime and air gateway to the Gulf. US investment of some \$40 billion of military assistance in Egypt has vastly reduced the logistical costs of maintaining what is now some 20,000 military personnel under Central Command, comprised of about 10,000 navy sailors and Marines, 6,000 air force airmen and 4,000 army soldiers. Expedited passage through the Suez Canal is important, but at least equally vital to CENTCOM's mission is over flight permission, more than 36,000 requests for which were granted between 2001 and 2005, a rate now somewhat reduced but still remarkably high. Moreover, it's not just the Gulf that the US and its European allies access through Egypt. It is also the primary gateway for both to volatile East Africa. Neither have viable alternative routes to these regions of strategic importance in which there are substantial American military forces. If Egypt were to deny the US these privileges, it would have to substantially increase defense outlays to cover vastly larger logistical costs, or downsize forces in the Gulf." See, "US Should Reform, Not End Military Aid to Egypt," *Al-Monitor.com*, September 23, 2013.

warships and over-flight rights for U.S. aircraft. The Egyptian military also seeks to maintain its longstanding cooperation with the United States, though U.S. officials and lawmakers are increasingly scrutinizing the extent and nature of this intended cooperation.

U.S. involvement in Egyptian domestic politics has been an issue that has historically hampered U.S.-Egyptian relations. Egyptian political discourse has always had strong nationalist and anti-colonialist elements to it, and condemning alleged “American interference in Egyptian affairs” is a common refrain expressed by various actors. Historically, a central U.S. foreign policy challenge with regard to Egypt has been how best to balance interests in enhancing U.S. national and global security with those in promoting democratic principles abroad.

## **The Obama Administration and Egypt: 2009-Present**

In the nearly five years of President Obama’s presidency, U.S. policy toward Egypt has been challenged by the ever-shifting nature of Egypt’s domestic politics and by the deep divisions within the United States over how to react to ongoing developments there. When President Obama entered office in 2009, the issue of promoting democracy inside Egypt had previously been at the forefront of the relationship, given the George W. Bush Administration’s pursuit of the “freedom agenda” in the broader Middle East and North Africa. Initially President Obama opted to shift his Administration’s focus away from Egypt’s domestic politics in order to improve relations with Cairo and secure its cooperation<sup>27</sup> in helping to restart Israeli-Palestinian peace talks.<sup>28</sup>

## **The 2011 Revolution and U.S.-Egyptian Relations**

The popular uprising that spread across the Arab world in 2011, including the three-week revolution that ultimately led to the resignation of former president Hosni Mubarak, forced the United States to reprioritize the promotion of democracy in Egyptian domestic politics. In a May 2011 speech, three months after Mubarak resigned, the President remarked:

Let me be specific. First, it will be the policy of the United States to promote reform across the region, and to support transitions to democracy. That effort begins in Egypt and Tunisia, where the stakes are high – as Tunisia was at the vanguard of this democratic wave, and Egypt is both a longstanding partner and the Arab world’s largest nation. Both nations can set a strong example through free and fair elections, a vibrant civil society, accountable and effective democratic institutions, and responsible regional leadership.<sup>29</sup>

To implement the President’s 2011 policy, government officials focused on developing contacts with new political forces, working with traditional actors such as the ruling military to ensure a smooth transition, and offering support to stabilize the economy. However, the popular uprising in Egypt unleashed a wave of pent up anti-Americanism due to the decades-old U.S. relationship with the former Mubarak regime. At a macro level, while traditional U.S.-Egyptian defense cooperation

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<sup>27</sup> President Obama began his presidency just days after an Israeli-Hamas cease-fire ended a three-week conflict in the Gaza Strip. Egypt had been active in serving as an intermediary between both Israel and Hamas and in reconciling Hamas with the Palestinian Authority.

<sup>28</sup> See the President’s June 4 speech in Cairo, available online at [http://www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-at-Cairo-University-6-04-09](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-Cairo-University-6-04-09).

<sup>29</sup> Available online at <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa>.

continued during the 16-month rule of the military government that followed Mubarak, on the ground, Egyptian politicians fanned the flame of anti-Americanism. Perhaps partly in order to stir up and/or placate nationalist sentiment among the “Egyptian street” amidst repeated public unrest and economic recession, the military pushed back against U.S. support for a democratic transition, vigorously criticizing former U.S. Ambassador Anne Patterson and jailing American employees (as well as Egyptian and other foreign nationals) of U.S.-based and foreign democracy advocacy organizations. Egyptian state-run media reports personally attacked the U.S. Ambassador and accused USAID of handing suitcases of cash over to Egyptian political parties and activists in Tahrir Square in order to buy influence. According to Egyptian-born scholar Michael Wahid Hanna, “The demands for dignity that were part of the protest movement also implicated what many perceive to be Egypt’s undignified dependency on the United States.”<sup>30</sup>

## **The United States and Former President Mohamed Morsi**

In the aftermath of Egypt’s 2012 presidential election, when former President Mohamed Morsi—a leading figure in the Muslim Brotherhood—became that nation’s first democratically elected president, U.S. officials cautiously engaged the new Egyptian government. They attempted to balance U.S. interests in maintaining close ties to the military with the need to acknowledge the legitimacy of elected civilian leaders. When asked how the Administration would deal with an Islamist head of the Egyptian state, U.S. officials stated at the time that they would “judge by actions, not words.”

An early test of U.S. relations with the Morsi government came on September 11, 2012, when thousands of predominantly Salafist Egyptians protested at the U.S. Embassy in downtown Cairo.<sup>31</sup> Some demonstrators scaled the walls and replaced the U.S. flag with a black one inscribed with the Islamic creed, “There is no God but God and Mohammed is the prophet of God.”<sup>32</sup> The protests coincided with other demonstrations in Muslim-majority countries and the murder of U.S. Ambassador to Libya Christopher Stevens and three other Americans in Benghazi, Libya. The protests also occurred during the visit of a 120-person U.S. business delegation of corporate executives from leading Fortune 500 companies.<sup>33</sup> The Egyptian government did not immediately take additional steps to protect the U.S. Embassy, and on September 12, President Obama reportedly stated, “I don’t think that we would consider them [Egypt] an ally, but we don’t consider them an enemy.... I think it’s still a work in progress, but certainly in this situation, what we’re going to expect is that they are responsive to our insistence that our embassy is protected, our personnel is protected.”<sup>34</sup>

A short-lived apex of U.S. relations with the Morsi Administration came in November 2012, when an Egyptian-mediated cease-fire ended a weeklong conflict between Israel and Palestinian militants in Gaza. Then-Secretary of State Hillary Rodham Clinton said, “I want to thank President Morsi for his personal leadership to de-escalate the situation in Gaza and end the violence.... This is a critical

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<sup>30</sup> “Trial of U.S. Nonprofit Workers in Egypt Is Abruptly Put Off,” *New York Times*, February 26, 2012.

<sup>31</sup> At that time, protests had occurred in several countries over a privately produced film that had circulated on the Internet that had been perceived to denigrate Islam and the prophet Mohammed. See, CRS Report R42743, *Recent Protests in Muslim Countries: Background and Issues for Congress*.

<sup>32</sup> Al Jazeera Wire Services, “Egypt protesters tear down US embassy flag,” September 11, 2012.

<sup>33</sup> The presence of the U.S. trade delegation also coincided with the continuation of Egypt’s ongoing prosecution of foreign and domestic NGO workers.

<sup>34</sup> “Egypt May Be Bigger Concern Than Libya for White House,” *New York Times*, September 13, 2012.

moment for the region. Egypt's new government is assuming the responsibility and leadership that has long made this country a cornerstone of regional stability and peace."<sup>35</sup>

However, a day later, Morsi issued a controversial constitutional declaration that sharply divided the Egyptian polity and sparked widespread unrest and internal turmoil that eventually led the military to arrest him seven months later. From that point on, debate intensified within the United States over continued support to a government led by a former leading member of the Muslim Brotherhood. The Administration, mindful that the Egyptian government showed signs of losing control over parts of the country, emphasized political inclusion<sup>36</sup> and economic stabilization while seeking to avoid entanglements in Egyptian domestic politics.

In the months prior to Morsi's removal, as Egypt grew less stable, U.S. officials voiced greater concern over preserving basic governance and preventing economic collapse—encouraging all sides to engage in a dialogue and be politically inclusive. Nevertheless, many Egyptians, especially non-Islamists, accused the United States and then-U.S. Ambassador Anne Patterson (now Assistant Secretary of State for Near Eastern Affairs) of favoring the Morsi Administration. Patterson gave a speech two weeks before Morsi's removal in which she expressed skepticism that “street action will produce better results than elections” in helping Egypt to maintain stability and get its “economic house in order.”<sup>37</sup> In response to Egyptian criticism of Patterson, one U.S. official was cited as saying that “Patterson is taking flak because she is the prominent representative in Cairo of an American government that is always the target of Egyptian ire, no matter what the U.S. does or does not do.”<sup>38</sup>

### **U.S. Policy Since July 3**

Following the July 3 ouster of Morsi—an elected president—by the Egyptian military, President Obama expressed concern over Egypt's polarized politics, reiterating that the United States is “not aligned with, and does not support, any particular Egyptian political party or group.” Despite its proclaimed neutrality, the Obama Administration has engaged the interim government in hopes of helping to stabilize the political situation and thereby secure broader U.S. interests, such as regional conflict mitigation/resolution and continued U.S.-Egyptian military cooperation. If there has been one constant in U.S.-Egyptian relations since the resignation of former President Hosni Mubarak in 2011, it is that the U.S. government, in order to advance U.S. regional security goals, seeks a

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<sup>35</sup> U.S. State Department, “Remarks Hillary Rodham Clinton,” Presidential Palace, Cairo, Egypt, November 21, 2012.

<sup>36</sup> For example, the State Department commented on the public approval of the constitution, stating that: “The future of Egypt's democracy depends on forging a broader consensus behind its new democratic rules and institutions. Many Egyptians have voiced deep concerns about the substance of the constitution and the constitutional process. President Morsi, as the democratically elected leader of Egypt, has a special responsibility to move forward in a way that recognizes the urgent need to bridge divisions, build trust, and broaden support for the political process. We have called for genuine consultation and compromise across Egypt's political divides. We hope those Egyptians disappointed by the result will seek more and deeper engagement. We look to those who welcome the result to engage in good faith. And we hope all sides will re-commit themselves to condemn and prevent violence.” See, Referendum on the Egyptian Constitution, Press Statement, Patrick Ventrell, Acting Deputy Spokesperson, Office of the Spokesperson, Washington, DC, December 25, 2012.

<sup>37</sup> U.S. Embassy in Egypt, Ambassador Anne W. Patterson's Speech at the Ibn Khaldun Center for Development Studies, June 18, 2013.

<sup>38</sup> Josh Rogin and Eli Lake, “Ambassador Anne Patterson, the Controversial Face of America's Egypt Policy,” *Daily Beast*, July 10, 2013.

cooperative Egyptian government counterpart—whether it is military-ruled, Islamist-dominated, or something else entirely.

Still, there has been a vigorous debate inside and outside the U.S. government over how to respond to the military's ouster of Morsi. In response, the Administration claims that it is "reassessing" its policy, which appears to be an attempt to once again walk a fine line between promoting U.S. national security interests and liberal ideals that arguably undergird the U.S.-backed post World War II international system. As part of this supposed balance, the Administration canceled a joint U.S.-Egypt military exercise (Operation Bright Star), suspended the deliveries of certain military items to Egypt, and cancelled planned cash transfers of economic aid.<sup>39</sup>

Overall, basic U.S.-Egyptian security cooperation continues, and U.S. officials have attempted to downplay any perceived punitive action they have taken.<sup>40</sup> During his November 2013 visit to Cairo, Secretary of State John Kerry remarked: "So this aid issue is a very small issue between us, and the Government of Egypt, I think, has handled it very thoughtfully and sensitively."<sup>41</sup>

Presently, it would seem that current policy has come full circle; the Administration has resigned itself to accepting the military's *fait accompli* while simultaneously shifting focus to regional security issues, such as Sinai stability and the resolution of the Israeli-Palestinian conflict. In his September address to the United Nations General Assembly, President Obama outlined his vision for a more minimalist approach to Egypt focused on traditional security goals, saying:

Over the last few years, particularly in Egypt, we've seen just how hard this transition will be. Mohamed Morsi was democratically elected, but proved unwilling or unable to govern in a way that was fully inclusive. The interim government that replaced him responded to the desires of millions of Egyptians who believed the revolution had taken a wrong turn, but it, too, has made decisions inconsistent with inclusive democracy—through an emergency law, and restrictions on the press and civil society and opposition parties.

Of course, America has been attacked by all sides of this internal conflict, simultaneously accused of supporting the Muslim Brotherhood, and engineering their removal of power. In fact, the United States has purposely avoided choosing sides. Our overriding interest throughout these past few years has been to encourage a government that legitimately reflects the will of the Egyptian people, and recognizes true democracy as requiring a respect for minority rights and the rule of law, freedom of speech and assembly, and a strong civil society.

That remains our interest today. And so, going forward, the United States will maintain a constructive relationship with the interim government that promotes core interests like the Camp David Accords and counterterrorism. We'll continue support in areas like education that directly benefit the Egyptian people. But we have not proceeded with the delivery of certain military systems, and our support will depend upon Egypt's progress in pursuing a more democratic path.

And our approach to Egypt reflects a larger point: The United States will at times work with governments that do not meet, at least in our view, the highest international expectations, but who work with us on our core interests. Nevertheless, we will not stop asserting principles that

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<sup>39</sup> U.S. State Department Press Statement, "U.S. Assistance to Egypt," October 9, 2013.

<sup>40</sup> "Egypt Army Intervened to Save Democracy: Kerry," *Agence France Presse*, August 1, 2013.

<sup>41</sup> U.S. State Department, Remarks With Egyptian Foreign Minister Nabil Fahmy, John Kerry, Secretary of State, Cairo, Egypt, November 3, 2013

are consistent with our ideals, whether that means opposing the use of violence as a means of suppressing dissent, or supporting the principles embodied in the Universal Declaration of Human Rights.<sup>42</sup>

The President's remarks on Egypt fall within a broader context, in which the Administration seeks to prioritize nuclear negotiations with Iran, Israeli-Palestinian peace talks, and Syria's chemical disarmament and political resolution. Overall, many observers have interpreted the President's policy as one in which the United States may try to become less consumed by the problems emanating from the Middle East, including Egypt. Public opinion polling suggests that many Americans are wary of the possibility of increased U.S. engagement in Egypt. According to one poll, "Only 16 percent of both Republicans and Democrats think America should ramp up its involvement in Egypt."<sup>43</sup>

Israel and the Arab Gulf States have criticized the U.S. approach for being too disengaged and punitive at a time that they view Egypt as requiring Western support. In justifying the President's goals for the region, National Security Advisor Susan Rice remarked, "We can't just be consumed 24/7 by one region, important as it is.... He thought it was a good time to step back and reassess, in a very critical and kind of no-holds-barred way, how we conceive [of] the region."<sup>44</sup>

## **U.S. Foreign Aid to Egypt**

### **Overview**

Between 1948 and 2012, the United States provided Egypt with \$73.1 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. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. bilateral foreign assistance.<sup>45</sup>

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, 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:

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<sup>42</sup> The White House, Office of the Press Secretary, Remarks by President Obama in Address to the United Nations General Assembly, September 24, 2013.

<sup>43</sup> "Americans Want Nothing to Do with Egypt," United Technologies/National Journal Congressional Connection Poll, conducted July 11-14, 2013. Available online at <http://cdn-media.nationaljournal.com/?controllerName=image&action=get&id=29773&width=628>.

<sup>44</sup> "Rice Offers a More Modest Strategy for Mideast," *New York Times*, October 26, 2013.

<sup>45</sup> This does not reflect aid provided by the Defense Department for the training and equipping of security forces in Afghanistan, Pakistan, and Iraq since 2001 and 2003, respectively.

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.<sup>46</sup>

All U.S. foreign aid to Egypt (or any foreign recipient) is *subject to the approval of 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 select 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 (FY2010-FY2014). 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. Moreover, 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.

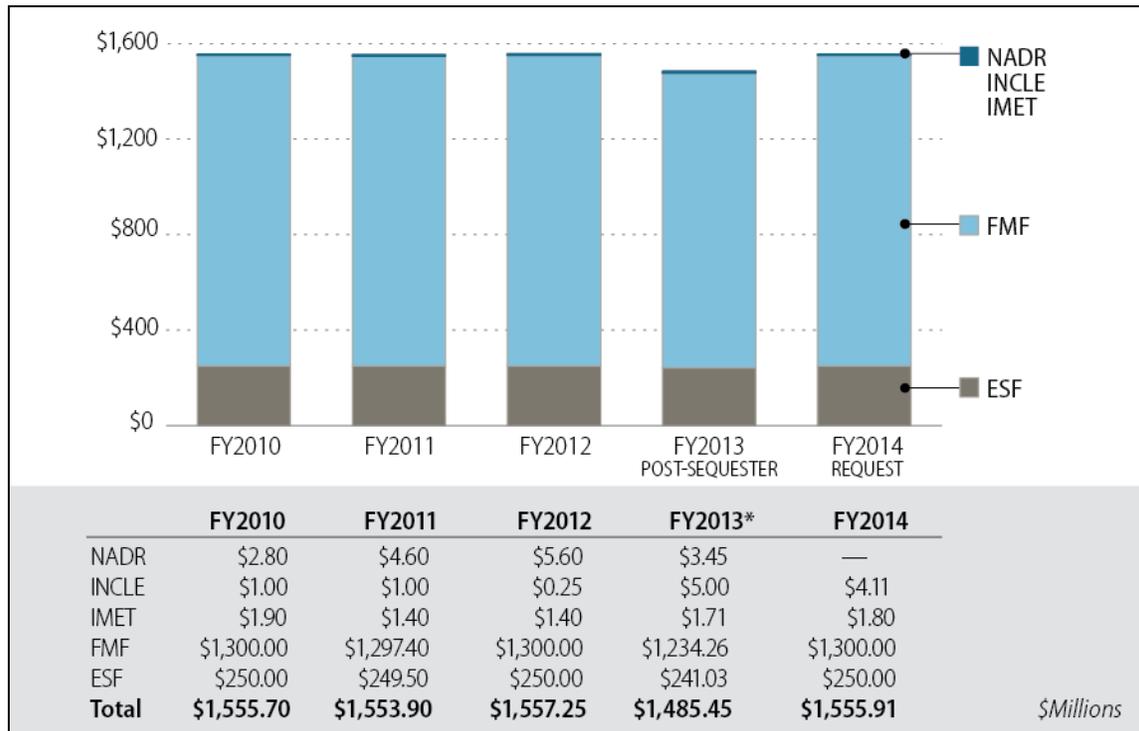
Congress typically specifies a precise allocation of most foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).<sup>47</sup> The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term.

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<sup>46</sup> 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.

<sup>47</sup> 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, FY2010-FY2014 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 the summer of 2013, the Administration made a decision to no longer pursue a loan guarantee. Programmatic decisions about this funding are still being determined.

## Military Aid & Arms Sales

### Overview

Since the 1979 Israeli-Egyptian Peace Treaty, the United States has provided Egypt with large amounts of military assistance. U.S. policy makers 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<sup>48</sup> to (among other things) gradually replace its earlier Soviet-origin equipment with U.S. defense systems.

<sup>48</sup> In FY2013, Israel and Egypt accounted for nearly 70% of all allocated FMF funding worldwide (50% and 20% respectively).

### 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.<sup>49</sup> 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 very little 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 to 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.

### 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 & 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.<sup>50</sup> Interest accrued from the rapid disbursement of aid has allowed Egypt to receive additional funding which it can then use to purchase 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,

<sup>49</sup> For the relevant legal authorities, see Sec. 604 of the Foreign Assistance Act as amended [22 U.S.C. 2354] and Sec. 503 of the Foreign Assistance Act as amended [22 U.S.C. 2311].

<sup>50</sup> 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 to 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. 112-74, the Consolidated Appropriations Act, 2012.

Congress has permitted Egypt to continue to earn interest on FMF funds already deposited in the Federal Reserve Bank of New York.

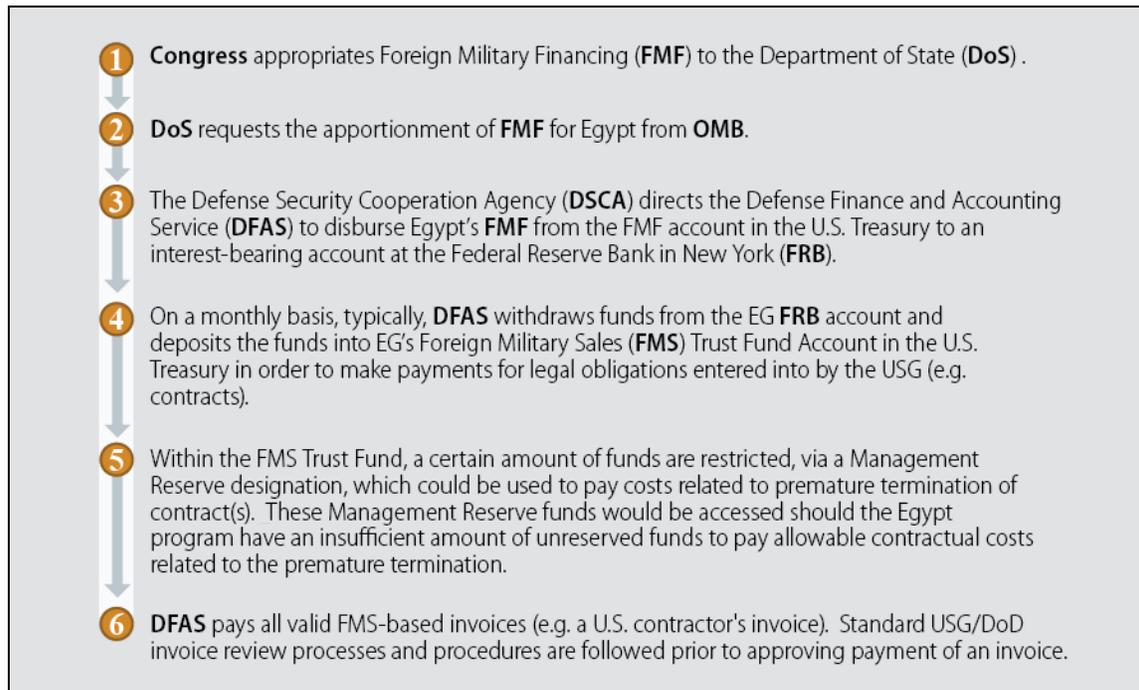
- **Cash Flow Financing:** Section 23 of the Arms Export Control Act (22 USCS § 2763<sup>51</sup>) authorizes the President to finance the “procurement of defense articles, defense services, and design and construction services by friendly foreign countries and international organizations, on such terms 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 full amount needed to meet the full cost of multi-year purchases.<sup>52</sup> 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. In recent years, as public scrutiny over U.S. military aid to Egypt has increased, some observers have criticized the provision of cash flow financing to Egypt. Critics argue that the financing of expensive conventional weapons systems is based on an assumption of future appropriations from Congress. If Congress were to alter its approach to Egypt and possibly cut or rescind military aid, future payments to U.S. defense contractors could be in question. According to Senator Leahy, Chairman of Senate Appropriations Subcommittee on the Department of State, Foreign Operations, and Related Programs, “It has gotten us into a situation where we are mortgaged years into the future for expensive equipment.... It is not a sensible way to carry out U.S. policy toward a country of such importance, where circumstances have changed, our interests and needs change, our budget is under stress, and yet we’ve been stuck on autopilot for more than 25 years.”<sup>53</sup>

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<sup>51</sup> 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.

<sup>52</sup> 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.

<sup>53</sup> “In Debate over Military Aid to Egypt, Contractual Issues loom large for U.S.,” *New York Times*, July 25, 2013.

**Figure 5. The Military Aid “Pipeline”**

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

### FMF to Egypt and Existing Defense Contracts

In recent years, as some critics have become increasingly vocal in demanding an end to U.S. military aid to Egypt, many observers have questioned what would happen to existing U.S. contracts if U.S. military aid is cut, suspended, or rescinded, or if Egypt terminates a contract?

Within the U.S.-held Foreign Military Sales trust fund account for Egypt (see above), a specific amount of money is held in reserve to pay to the U.S. contractor if Egypt terminates a contract early. This is called the termination liability reserve or management reserve. The actual amount in the account fluctuates depending upon the dollar value and life of each contract, but at any given time the usual approximate value of the reserve can reach several hundred million dollars.

If Congress cuts, suspends, or rescinds FMF to Egypt, then due to the fact that Egypt is granted cash flow financing and can stretch payments for defense equipment over several years, a funding shortfall on existing U.S. defense contracts may occur. In that event, the Egyptian government could pay the shortfall from its own national funds. There are clauses in foreign military sales contracts that stipulate that Egypt must accept responsibility for the cost of purchased defense systems even if it no longer receives FMF grants. However, if Egypt does not make up the shortfall and payments to U.S. companies are not made, then the U.S. government may be liable and forced to pay contractors termination liability fees. According to one report, “the U.S. government could face \$2 billion to \$3 billion in bills if it terminates aid to Egypt completely.”<sup>54</sup> According to another observer, “Although Washington could pay the contractors from existing funds in the Fed [FMF] account, assume the

<sup>54</sup> “U.S. Faces Substantial Losses if Egypt aid Halted –Official,” *Reuters*, September 4, 2013.

contracts, take possession of the equipment, or even sell it to other countries via direct Foreign Military Sales, these options are not optimal.”<sup>55</sup>

## **U.S.-Supplied Weapons Systems**

FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts. According to the Egyptian Defense Office (a branch of the Egyptian military) in Washington, D.C., 39% of FMF is allocated for upgrades to existing weapons systems, 34% of FMF is allocated for follow-on support, and 27% is used for acquisitions. Egypt also receives Excess Defense Articles (EDA) from the U.S. Defense Department.<sup>56</sup> Gauging the financial benefit of U.S. aid for Egypt’s defense procurement needs is difficult due to the lack of verifiable figures on total Egyptian military spending. Moreover, some observers suggest that the military uses its “own off-budget revenue from their vast economic enterprises to buy arms from other suppliers in Europe and Asia.”<sup>57</sup> According to the International Institute for Strategic Studies (IISS), in 2012 Egypt’s total defense budget was approximately \$4.21 billion.<sup>58</sup> Based on this estimate, annual FMF grants to Egypt would account for about 31% of Egypt’s total defense spending.

One perennial problem for the Egyptian military is the lack of funding dedicated to maintaining existing equipment procured from the United States. According to the Defense Department, Egypt has usually set aside 30% of annual FMF grants for follow-on-support. U.S. military planners recommend a much higher allocation of funds, totaling 50% of Egypt’s annual FMF (\$650 million) appropriation.

Over the years, the United States has provided the Egyptian military with several major weapons systems. Since 1980, under the Peace Vector Foreign Military Sales Program, Egypt has acquired over 224 F-16s. It is the fourth largest operator of the F-16 after the United States, Israel, and Turkey. U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank, which began in 1988, is one of the cornerstones of U.S. military assistance to Egypt.<sup>59</sup> Egypt plans to acquire a total of 1,200 tanks. Under the terms of the program, a percentage of the tank’s components are manufactured in Egypt at a facility on the outskirts of Cairo and the remaining parts are produced in the United States and then shipped to Egypt for final assembly.<sup>60</sup> To date, 1,005 M1A1 tanks have been coproduced.

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<sup>55</sup> David Schenker, “Inside the Complex World of U.S. Military Assistance to Egypt,” *The Washington Institute, PolicyWatch* 2130, September 4, 2013.

<sup>56</sup> According to the Defense Department, Egypt has used EDA sales and grant transfers to acquire two PERRY class and two KNOX frigates, numerous HAWK missiles and parts, mine rakes, helicopter spare parts, E-2C aircraft and support, AN/TSM96 Chaparral shop vans, MIM-72G Chaparral missiles, an F-16 Advanced Avionics Intermediate Shop (test station), assorted armored vehicles (M60 tanks and M113 APCs) and various types of munitions.

<sup>57</sup> “US Military Aid to Egypt Lost Value,” *Jadaliyya.com*, July 25, 2013.

<sup>58</sup> The International Institute for Strategic Studies, *The Military Balance 2013*, Routledge, March 2013.

<sup>59</sup> On November 1, 1988, the United States and Egypt signed in Cairo a Memorandum of Understanding “Relating to the Co-Production of the M1A1 Tank in Egypt.”

<sup>60</sup> Congress was notified in July 2011 of a potential M1A1 agreement. The notification is listed here: [http://www.dsca.mil/PressReleases/36-b/2011/Egypt\\_10-67.pdf](http://www.dsca.mil/PressReleases/36-b/2011/Egypt_10-67.pdf)

Congress did not object to the sale, and an M1A1 contract was finalized thereafter. The following is information on the contract from the Department of Defense: General Dynamics [GD] Land Systems has received a \$395 million contract for work under the Egyptian tank co-production program. The contract, issued by the Army TACOM Lifecycle Management Command, has awarded the funds for production of 125 M1A1 Abrams tank kits for the 11<sup>th</sup> increment of the Egyptian co-production program. Since 1992, General Dynamics has provided components for kits used in the co-production program. (continued...)

Egypt also has acquired 35 AH-64D Block II Apache Longbow helicopters from Boeing (the procurement of an additional 10 are on hold) using FMF funds. By law, the Administration is required to report to Congress on its policy of ensuring that sales of U.S. defense equipment to friendly states in the Middle East, including Egypt, is not undermining Israel's "qualitative military edge" (QME) over neighboring militaries. Further discussion of this subject is available in CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp

The Defense Security Cooperation Agency (DSCA) issues Major Arms Sales notifications to Congress. DSCA has not notified Congress of a Major Arms Sale to Egypt since 2011. The following is a list of some Foreign Military Sales (FMS) to Egypt in FY2013 that may be linked to sales that were notified to Congress in or prior to 2011. Each entry lists the prime contractor and its location, the contracting number, and the equipment/service being purchased.

- Raytheon BBN Technologies, Cambridge, MA, was awarded a \$9,936,361 firm-fixed-price, non-option, non-multi-year contract for the Engineer Research and Development Center Geotechnical and Structures Laboratory requirement under the Egyptian Foreign Military Sales (FMS) Letter of Agreement (LOA) and subsequent amendments to continue research and development of the Border Tunnel Activity Detection Systems. This contract, part of an FMS for Egypt, was a non-competitive acquisition with one bid solicited and one bid received. The U.S. Army Corps of Engineers - Vicksburg Consolidated Contracting Office, Vicksburg, MS, is the contracting party (W912HZ-13-D-0002).
- General Electric Co., Cincinnati, OH, has been awarded a \$13,661,657 firm-fixed-price contract (FA8122-09-G-0001-0032) for 18 Egyptian Air Force F110 Service Life Extension kits. Work will be performed at Cincinnati, OH, and is expected to be completed by October 31, 2013. Foreign Military Sales funds to Egypt (100 percent) in the amount of \$13,661,657 are being obligated at time of award, none of which will expire at the end of the current fiscal year. Air Force Sustainment Center/PZAAB, Tinker Air Force Base, OK, is the contracting party.<sup>61</sup>
- DRS Radar Systems, Horsham, PA, was awarded a firm-fixed-price, multi-year, foreign military sales contract with a maximum value of \$8,105,505 for the procurement of a border surveillance system. This FMS contract is in support of Egypt. Fiscal 2013 procurement funds are being obligated on this award. The Army Contracting Command, Aberdeen Proving Ground, MD, is the contracting party (W15P7T-13-C-D522).<sup>62</sup>
- L-3 Communication, San Diego, CA, was awarded a \$10,505,889 firm-fixed-price, FMS contract to procure HF transceivers and components for RT-1606 systems and accessories. This FMS contract is in support of Egypt. Fiscal 2013 procurement contract funds are being obligated on this award. One bid was solicited, with one

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(...continued)

The parts are shipped to a production facility near Cairo, Egypt, where the tanks are manufactured for the Egyptian Land Forces. This latest increment will increase the number of Egyptian co-production-built tanks to 1,130. Work on the components is to be performed in Anniston, AL; Tallahassee, FL; Sterling Heights, MI; Lima, OH; and Scranton, PA, by existing General Dynamics employees. Deliveries are to begin in July 2013 and continue to January 2016.

<sup>61</sup> Contracts for August 12, 2013, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>62</sup> Contracts for July 2, 2013, Department of Defense Documents, Federal Information & News Dispatch, Inc.

bid received. The Army Contracting Command, Aberdeen Proving Ground, MD, is the contracting party (W15P7T-13-C-D518).<sup>63</sup>

- The Boeing Co., Mesa, AZ, was awarded a \$56,370,522 firm-fixed-price contract. The award will provide for the procurement of AH-64D Apache Longbow Helicopters for the Egyptian Air Force. Work will be performed in Mesa, with an estimated completion date of June 30, 2014. The bid was solicited through the Internet, with one bid received. The U.S. Army Contracting Command, Redstone Arsenal, AL, is the contracting party (W58RGZ-10-C-0086).<sup>64</sup>
- AICI—ARCHIRODON JV, Arlington, VA, was awarded a \$9,648,000 firm-fixed-price contract. The award will provide for the Synchronlift Safety Repair services in support of Foreign Military Sales. Work will be performed in Egypt, with an estimated completion date of August 21, 2014. The bid was solicited through the Internet, with two bids received. The U.S. Army Corps of Engineers, Winchester, VA, is the contracting party (W912ER-13-C-0005).<sup>65</sup>
- Lockheed Martin Corp., Orlando, FL, was awarded a \$23,426,616 firm-fixed-price contract. The award will provide for the procurement of the Deployable-Advanced Gunnery Training Systems in support of Foreign Military Sales. Work will be performed in Orlando and Egypt, with an estimated completion date of March 31, 2016. One bid was solicited, with one bid received. The U.S. Army Program Executive Office Simulation, Training and Instrumentation, Orlando, FL, is the contracting party (W900KK-13-C-0002).<sup>66</sup>
- General Dynamics Land Systems, Sterling Heights, MI, was awarded a \$37,601,061 cost-plus-fixed-fee contract. The award will provide for the modification of an existing contract to procure services in support of the M1A1 coproduction effort at the Egyptian Tank Plant in Cairo, Egypt. Work will be performed in Sterling Heights and Cairo, with an estimated completion date of February 28, 2015. One bid was solicited, with one bid received. The U.S. Army Contracting Command, Warren, MI, is the contracting party (W56HZV-09-C-0488).<sup>67</sup>
- Daimler Trucks of North America L.L.C., Portland, OR, was awarded an \$8,589,566 firm-fixed-price contract. The award will provide for the procurement of trucks and trailers in support of Foreign Military Sales. Work will be performed in Egypt, with an estimated completion date of November 5, 2013. One bid was solicited, with one bid received. The U.S. Army Corps of Engineers, Winchester, VA, is the contracting party (W912ER-13-C-0001).<sup>68</sup>
- Chrysler Group International L.L.C., Auburn Hills, MI, was awarded a \$10,455,090 firm-fixed-price contract. The award will provide for the modification of an existing contract to procure Wrangler TJK Jeep kits, diesel engines, transmissions, cases and spares in support of Foreign Military Sales. Work will be performed in Egypt, with

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<sup>63</sup> Contracts for April 12, 2013, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>64</sup> Contracts for December 20, 2012, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>65</sup> Contracts for December 20, 2012, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>66</sup> Contracts for December 11, 2012, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>67</sup> Contracts for December 3, 2012, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>68</sup> Contracts for November 16, 2012, Department of Defense Documents, Federal Information & News Dispatch, Inc.

an estimated completion date of Sept. 28, 2013. The bid was solicited through the Internet, with one bid received. The U.S. Army Contracting Command, Warren, MI, is the contracting party (W56HZV-11-C-0123).<sup>69</sup>

## **U.S. Military Aid for Border and Sinai Security**

In annual foreign operations appropriations legislation, Congress usually specifies that “\$1,300,000,000 shall be made available for grants only for Egypt, including for border security programs and activities in the Sinai.” As violence worsens in the peninsula, some lawmakers and outside observers argue that a greater percentage of U.S. military aid should support Egypt’s Sinai stabilization efforts to counter underground tunnel smuggling into Gaza, combat extremist groups, and interdict arms smuggling from Sudan and Libya. For FY2013-FY2014, Egypt has allocated \$106 million in FMF to purchase patrol boats, helicopters, land vehicles, and radios for its border patrol forces (Border Guard Forces or BGF). In 2009, Egypt, using FMF, acquired a \$24 million Border Tunnel Detection and Abatement (BTADS) system designed to detect and prevent tunnel smuggling along the Gaza border.

## **Economic Aid**

### **Overview**

Although Egypt still receives significant 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.<sup>70</sup> When Egypt made peace with Israel and subsequently became politically and 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.<sup>71</sup>

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

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<sup>69</sup> Contracts for October 5, 2012, Department of Defense Documents, Federal Information & News Dispatch, Inc.

<sup>70</sup> 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-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.

<sup>71</sup> 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.

would ultimately lead to a possible Free Trade Agreement (FTA) with the United States.<sup>72</sup> 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.<sup>73</sup>

In Congress, lawmakers 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. Since FY2010, Congress has appropriated ESF to Egypt at the \$250 million Administration-requested level. Presently, there is no bilateral agreement between the United States and Egypt on overall levels of economic assistance.

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<sup>72</sup> 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.

<sup>73</sup> 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, 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 (a) to include two new QIZ areas.

The popular revolution of 2011 essentially put on hold bilateral discussions that had taken place between 2008 and 2010 and were geared toward the future of ESF to Egypt. In the years preceding the so-called Arab Spring, the Mubarak government, seeking to avoid disputes with Congress over using ESF for democracy and governance funding, had wanted to shift U.S. economic aid into programs that could be, according to Egyptian officials, mutually agreed upon instead of unilaterally imposed. The Mubarak government also had argued that based on current aid levels at the time, Egyptian debt repayments to the United States exceed the cash portion of U.S. economic assistance and that this cash “imbalance” needed to be rectified. In 2008, Egypt proposed establishing a “friendship endowment” to jointly manage and fund development projects.<sup>76</sup> The Administration also offered its own policies to refocus U.S.-Egyptian cooperation. After President Obama’s 2009 speech at Cairo University and broader Administration effort to expand U.S. outreach with Muslim-majority countries, the Administration expanded several small scale U.S. initiatives to promote science, business, and technical cooperation with Egypt. The Administration had proclaimed that 2011 would be the year of “U.S.-Egypt science.”

**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 might be deemed as acceptable U.S.-funded activities in the democracy and governance sector, it appears that the sides have not reached consensus. Using the appropriations process, Congress has acted to ensure that “democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt].”<sup>74</sup>

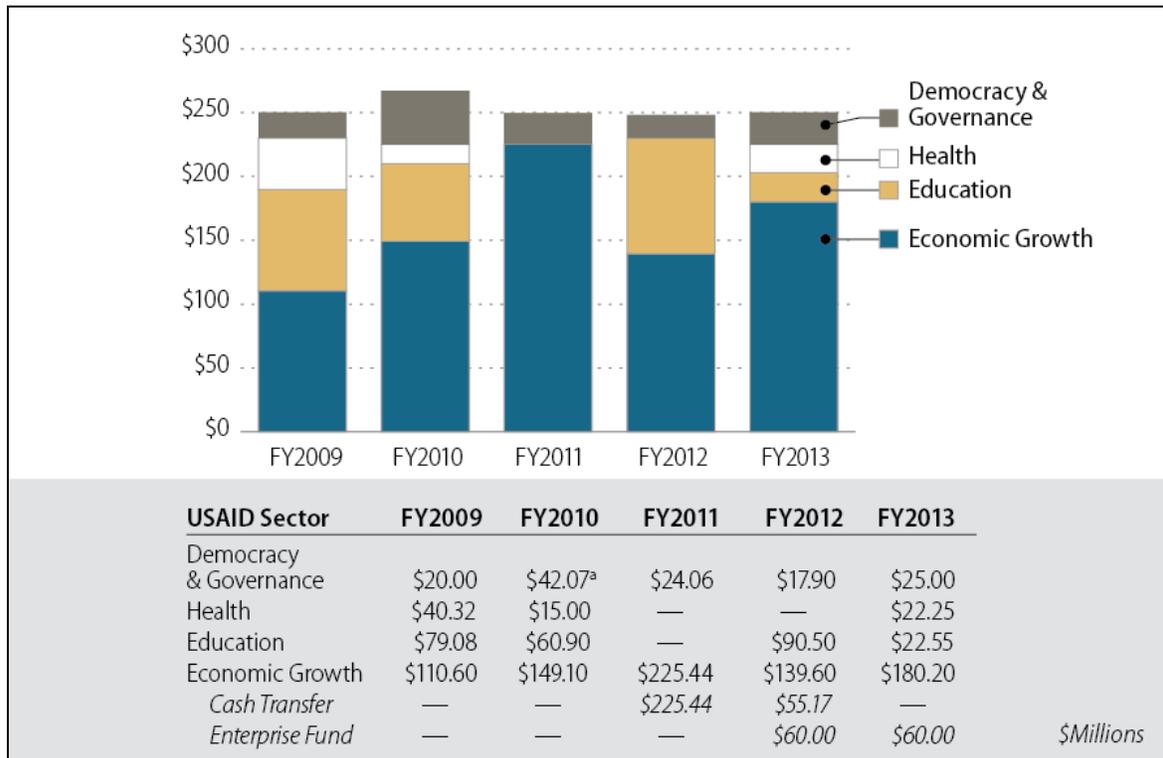
Congress also has conditioned U.S. assistance to Egypt, including military aid, on an executive branch certification that the Egyptian government is transitioning to democracy. Section 7041 of P.L. 112-74, the Consolidated Appropriations Act, 2012 specifies that prior to the obligation of FMF funds, the Secretary of State shall certify that Egypt is supporting the transition to civilian government, including by holding free and fair elections and by implementing policies to protect freedom of expression, association, and religion, and due process of law. The Administration may waive this certification under certain conditions. Former Secretary of State Hillary Rodham Clinton first exercised the waiver on March 23, 2012. Secretary of State Kerry exercised the waiver for FY2013 in early May 2013.<sup>75</sup>

Currently, U.S. economic aid to Egypt is divided into three components: (1) USAID-managed programs (public health, education, economic development, democracy and governance); (2) cash transfer to the Egyptian government treasury granted in return for meeting negotiated reform targets; and (3) the U.S.-Egyptian Enterprise Fund. For FY2014, the Administration has requested \$250 million in ESF for Egypt. This request is the sixth largest bilateral ESF request to Congress behind Afghanistan, Pakistan, West Bank/Gaza, Jordan, and South Sudan.

<sup>74</sup> In FY2005, Congress directed that “democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt],” language which remained in annual foreign operations appropriations legislation until FY2010. Under Mubarak, Egypt had claimed that U.S. assistance programs must be jointly negotiated and could not be unilaterally dictated by the United States. P.L. 111-117, the Consolidated Appropriations Act, FY2010, contained general legislative language on the use of U.S. funds to NGOs, stating in Section 7034: “With respect to the provision of assistance for democracy, human rights and governance activities in this Act, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the government of any foreign country.” (See, P.L. 111-117. The conference report accompanying the Act notes, “the requirements of section 7034(m)(4) of this Act shall apply with respect to the provision of assistance to Egyptian NGOs.”) P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, became law on April 15, 2011, after the resignation of former Egyptian President Hosni Mubarak, and did not contain language addressing the NGO issue.

<sup>75</sup> “U.S. quietly allows Military aid to Egypt despite rights Concerns,” Reuters, June 6, 2013.

<sup>76</sup> After several failed attempts to form a new Egypt aid mechanism, Congress passed into law a new provision in P.L. 111-117 (section 7042) that called for the possible establishment of an endowment to “further the shared interests” of the United States and Egypt.

**Figure 6. Obligations of U.S. Economic Aid to Egypt: FY2009-FY2013**

**Source:** Data from USAID. Graphic created by CRS.

- a. Immediately following the 2011 revolution, additional funding was made available to support Egypt's democratic development using repurposed no-year funds, totaling around \$30 million, which is not reflected in this chart.

## U.S. Economic Aid to Egypt After the 2011 Resignation of Mubarak

Egypt's January 25 "revolution," which led to the resignation of former president Mubarak, triggered a steep decline in the economy and a sharp increase in the country's budget deficit. Sensing an urgent need both to stabilize the economies of Arab countries in transition and politically support what at the time seemed to many observers as nascent Arab democracies, the Obama Administration launched several aid initiatives for Egypt (and Tunisia) in early 2011.

In the weeks following Mubarak's resignation, the Obama Administration reprogrammed \$165 million in already-appropriated ESF for support to Egypt's economy (\$100 million) and political transition (\$65 million).<sup>77</sup> In a speech delivered at the State Department on May 19, 2011, President Obama outlined a new plan for U.S. engagement with Egypt and other Arab countries undergoing political transitions. Major components of that plan included providing up to \$1 billion in bilateral debt relief<sup>78</sup> to Egypt and \$1 billion in U.S.-backed loan guarantees<sup>79</sup> to finance Egyptian

<sup>77</sup> USAID provided support to both the 2011 parliamentary and 2012 presidential elections (est. \$20 million-\$23 million), including assistance to domestic and international election "witnesses" who reported on the election process and administration assistance in collaboration with the Egyptian High Election Commission (HEC), among other activities.

<sup>78</sup> As of June 2012, total Egyptian debt to the United States was approximately \$2.7 billion, with \$1.2 billion owed to USAID and the balance owed to USDA. A portion of Egypt's debt to the United States government stems from past food aid programs. U.S. food aid to Egypt primarily consisted of concessional sales of U.S. wheat under Title I of the Food for (continued...)

infrastructure and job creation, and creating an enterprise fund to invest in small- and medium-sized Egyptian businesses (SME).

Although at the time observers were divided over whether the President's proposal was either insufficient or overly generous, as events unfolded some proposals were adopted by Congress while others were deferred or rejected. Overall, from the resignation of Mubarak in 2011 until the present, proposals to expand economic aid to Egypt have been limited by a variety of U.S. concerns, including: overall U.S. budgetary limitations; concern over widespread anti-Americanism that had permeated Egyptian politics at the time; uncertainty over the intentions of the Muslim Brotherhood as it scored electoral victories in parliamentary and presidential elections; general U.S. concern over rising polarization and the failure to reach broad national consensus on a constitution; and finally Egypt's commitment to regional peace and securing the Sinai.

The following is a list of various U.S. aid initiatives for Egypt since 2011:

**Cash Transfer:** On September 28, 2012, the Administration notified Congress of its intent to provide a \$450 million cash transfer to Egypt (comprised of unobligated Economic Support Funds previously appropriated for other purposes).<sup>80</sup> According to USAID, the \$450 million was to be distributed in two tranches (\$190 million and \$260 million). The Congressional Notification was issued weeks after an attack against U.S. diplomatic facilities in Libya in September 2012, which led to the death of Ambassador Christopher Stevens, and a protest outside the U.S. Embassy in Cairo in which a mob breached the Embassy walls and replaced the U.S. flag with a black one associated with Islamist extremist movements. Many lawmakers were angered by Morsi's failure to condemn the act immediately, apologize for the incident, and take more forceful police measures to protect the Embassy.

Upon receipt of the Congressional Notification, Representative Kay Granger, chair of the House Appropriations Subcommittee on State and Foreign Operations, placed a "hold" on the \$450 million cash transfer, stating that "This proposal comes to Congress at a point when the U.S. - Egypt relationship has never been under more scrutiny, and rightly so. I am not convinced of the urgent need for this assistance and I cannot support it at this time. As Chair of the Subcommittee, I have

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(...continued)

Peace Act, which makes available long-term, low-interest loans or grants to developing countries and private entities for their purchase of U.S. agricultural commodities to support specific projects. According to one analyst, by the end of 1976, one of every three loaves of bread consumed by urban Egyptians was a product of wheat purchased under the PL-480 program. See, William Joseph Burn, *Economic Aid and the American Policy Toward Egypt, 1955-1981* (State University of New York Press, Albany, NY, 1985). Loan agreements under the Title I credit program provided for repayment terms of up to 30 years with a grace period of up to five years. Egypt stopped receiving loans under Title I in 1995 and no U.S. funding for any Title I credit sales and grants has been appropriated since FY2006.

Egypt has already received substantial debt relief from the United States. In recognition of Egypt's participation in Operation Desert Storm in Iraq, in 1990, President George H.W. Bush asked Congress to forgive \$6.7 billion of debt that stemmed from military loans extended to Egypt by the United States between 1979 and 1984 to help finance large amounts of weapons purchased under the Foreign Military Sales (FMS) Program. Debt cancellation authority for the full amount was granted in the 1991 Foreign Operations Appropriations Act. At the time, total Egyptian debt owed to the United States, including ESF and PL-480 loans, was about \$12 billion.

<sup>79</sup> According to the U.S. State Department, Loan Guarantees to Egypt were authorized in the Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-11). The maximum principal to be guaranteed was \$2 Billion and the authority expired on September 30, 2005. Only \$1.25 billion in guarantees were issued under the program, and that amount remains outstanding, with the total principal due in September 2015.

<sup>80</sup> The ESF cash transfer would come from previously appropriated ESF, including: \$55,170,041 ESF (FY2012), \$225,436,126 ESF (FY2011), \$167,461,116 ESF (No Year), and \$1,932,717 ESF (Prior Year Recoveries).

placed a hold on these funds.” Then-House Foreign Affairs Committee Chair Ileana Ros-Lehtinen also placed a hold on the aid. The hold remained in place until lawmakers lifted it on the first tranche of \$190 million only. The notification of the release of these funds was made by Secretary of State John Kerry during his March 2013 visit to Egypt, where he said that, “In light of Egypt’s extreme needs and [then] President Morsi’s assurance that he plans to complete the IMF process, today I advised him the United States will now provide the first \$190 million of our pledged \$450 million in budget support funds.” The remaining second tranche of \$260 million in cash transfer remained on hold by Congress. After the military’s July ouster of Morsi, the State Department announced that it would hold the delivery of further cash assistance to the government pending credible progress toward an inclusive, democratically elected civilian government through free and fair elections.

**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.<sup>81</sup> The goal of such a 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.<sup>82</sup> 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.”<sup>83</sup>

However, since the fund was formally launched during the rule of the former 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 a 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.”<sup>84</sup>

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<sup>81</sup> See Section 7041 (b) of the Act that states: “Up to \$60,000,000 of funds appropriated under the heading ‘Economic 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.”

<sup>82</sup> 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>

<sup>83</sup> David Ignatius, “An Egyptian Aid Package, Stuck in a D.C. Labyrinth,” *Washington Post*, July 19, 2013.

<sup>84</sup> “U.S. Aid to Egypt Stuck in Limbo,” *CQ News*, October 28, 2013.

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.

## **U.S. Foreign Aid to Egypt Since the July 2013 "Coup"**

Given the Egyptian military's July 3, 2013, suspension of the constitution, its ouster of President Mohammed Morsi, and its appointment of an interim president, some lawmakers have focused on Section 7008 of the most recent annual foreign operations appropriations act (P.L. 112-74, division I; 125 Stat. 1195), which prohibits foreign assistance to a country whose elected head of government is deposed by military coup d'etat or decree.

Section 7008 states:

### COUPS D'ETAT

SEC. 7008. None of the funds appropriated or otherwise made available pursuant to titles III through VI of this Act shall be obligated or expended to finance directly any assistance to the government of any country whose duly elected head of government is deposed by military coup d'etat or decree or, after the date of enactment of this Act, a coup d'etat or decree in which the military plays a decisive role: *Provided*, That assistance may be resumed to such government if the President determines and certifies to the Committees on Appropriations that subsequent to the termination of assistance a democratically elected government has taken office: *Provided further*, That the provisions of this section shall not apply to assistance to promote democratic elections or public participation in democratic processes: *Provided further*, That funds made available pursuant to the previous provisos shall be subject to the regular notification procedures of the Committees on Appropriations.

Neither this nor any other provision of U.S. law further defines the phrase "coup d'etat or decree in which the military plays a decisive role." Thus, how and in what manner the executive branch might determine whether such a triggering event has occurred is being publicly debated. Indeed, the section does not explicitly require or provide for the President to make such a determination; nor does it include a timetable for its application.<sup>85</sup> In addition, Section 7008 does not apply to all foreign aid funding streams, even aside from the exceptions explicitly stated therein. Some aid, such as International Narcotics Control and Law Enforcement (INCLE) and Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR), is made available "notwithstanding any other provision of law." Egypt receives small sums from these accounts, usually totaling around \$5 million per fiscal year (\$1 million from INCLE and \$4 million from NADR). Other categories of aid that are, appear to be, or could be exempt from the Section 7008 restriction include: humanitarian aid, child survival, public health, and emergency food aid. Also, the Section 7008 restriction applies only to programs funded by the most recent annual foreign operations appropriations act; it does not apply to funding administered by U.S. agencies and departments that are funded by other appropriations measures.<sup>86</sup>

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<sup>85</sup> For background on how this provision of law has been applied in other cases, please see CRS Report R42664, *Crisis in Mali*, by Alexis Arieff.

<sup>86</sup> The President also holds "special authorities" to furnish assistance under the Foreign Assistance Act of 1961 "without regard to any provision of this Act [the 1961 Act], the Arms Export Control Act, any law relating to receipts and credits accruing to the United States, and any Act authorizing or appropriating funds for use under" the Foreign Assistance Act of 1961, when he determines and notifies Congress "that to do so is important to the security interests of the United States." Section 614(a), Foreign Assistance Act of 1961 (P.L. 87-195; 22 U.S.C. 2364(a)).

As of December 2013, the Administration has not formally declared that what transpired in Egypt in July 2013 was a “coup.” However, the United States government has suspended joint military exercises, the delivery of some weapons systems, and planned cash transfers while simultaneously continuing military aid payments for other weapons systems that have been previously procured. A State Department official has stated that this move is “consistent with the law and our national interests.”<sup>87</sup> Observers debate whether the Administration’s actions adhere to the “letter” and/or “spirit” of Section 7008.

**Table I. Chronology: Administration Statements on U.S. Aid to Egypt Since July 3**

July 3, 2013	On July 3, the White House issued a statement in which President Obama remarked that: “We are deeply concerned by the decision of the Egyptian Armed Forces to remove President Morsy and suspend the Egyptian constitution. I now call on the Egyptian military to move quickly and responsibly to return full authority back to a democratically elected civilian government as soon as possible through an inclusive and transparent process, and to avoid any arbitrary arrests of President Morsy and his supporters. Given today’s developments, I have also directed the relevant departments and agencies to review the implications under U.S. law for our assistance to the Government of Egypt.” <sup>88</sup>
July 24, 2013	On July 24, Pentagon spokesperson George Little announced that the United States was suspending the planned delivery of four F-16 jetfighters to Egypt, saying “We do not believe it’s appropriate at this time to move forward.... Just given the overall situation, we thought it prudent to make this decision.”
July 26, 2013	On July 26, State Department Spokesperson Jen Psaki indicated that the Administration is not legally bound to make a formal determination. She said: “The law does not require us to make a formal determination – that is a review that we have undergone – as to whether a coup took place, and it is not in our national interest to make such a determination. So we will work with Congress to determine how best to continue assistance to Egypt in a manner that encourages Egypt’s interim government to quickly and responsibly transition back to a stable, democratic, civilian-led, and inclusive government.” <sup>89</sup>
August 15, 2013	A day after the Egyptian military and police launched a brutal crackdown against the Muslim Brotherhood, President Obama suspended U.S. participation in Operation Bright Star, a biannual military exercise with the Egyptian military. The President said, “...given the depths of our partnership with Egypt, our national security interests in this pivotal part of the world and our belief that engagement can support a transition back to a democratically elected civilian government, we’ve sustained our commitment to Egypt and its people. But while we want to sustain our relationship with Egypt, our traditional cooperation cannot continue as usual when civilians are being killed in the streets and rights are being rolled back. As a result, this morning we notified the Egyptian government that we are canceling our biannual joint military exercise which was scheduled for next month. Going forward I’ve asked my national security team to assess the implications of the actions taken by the interim government and further steps that we may take as necessary with respect to the U.S.-Egyptian relationship.” <sup>90</sup>
September 24, 2013	In his September address to the United Nations General Assembly, President Obama outlined his vision for a more minimalist approach to Egypt focused on traditional security goals, saying that: “...going forward, the United States will maintain a constructive relationship with the interim government that promotes core interests like the Camp David Accords and counterterrorism. We’ll continue support in areas like education that directly benefit the Egyptian people. But we have not proceeded with the delivery of certain military systems, and our support will depend

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<sup>87</sup> Testimony of Ambassador Beth Jones, Acting Assistant Secretary of State for Near Eastern Affairs, before the House Foreign Affairs Committee, October 29, 2013.

<sup>88</sup> The White House, Office of the Press Secretary, July 03, 2013, Statement by President Barack Obama on Egypt.

<sup>89</sup> U.S. State Department, Jen Psaki, Spokesperson, Daily Press Briefing, Washington, DC, July 26, 2013.

<sup>90</sup> The White House, Office of the Press Secretary, Remarks by the President on the Situation in Egypt, Residence, Chilmark, Massachusetts, August 15, 2013.

upon Egypt's progress in pursuing a more democratic path. And our approach to Egypt reflects a larger point: The United States will at times work with governments that do not meet, at least in our view, the highest international expectations, but who work with us on our core interests. Nevertheless, we will not stop asserting principles that are consistent with our ideals, whether that means opposing the use of violence as a means of suppressing dissent, or supporting the principles embodied in the Universal Declaration of Human Rights."<sup>91</sup>

October 9, 2013 State Department Spokesperson Jen Psaki remarked: "We will continue assistance to help secure Egypt's borders, counter terrorism and proliferation, and ensure security in the Sinai. We will continue to provide parts for U.S.-origin military equipment as well as military training and education. We will, however, continue to hold the delivery of certain large-scale military systems [F-16s, Apache helicopters, Harpoon missiles, and M1A1 tanks] and cash assistance to the government pending credible progress toward an inclusive, democratically elected civilian government through free and fair elections."<sup>92</sup>

November 3, 2013 During his November 2013 visit to Cairo, Secretary of State John Kerry remarked: "So this aid issue is a very small issue between us, and the Government of Egypt, I think, has handled it very thoughtfully and sensitively."<sup>93</sup> According to one report, Secretary Kerry also emphasized the need for the interim government to enact constitutional protections and in the words of one unnamed U.S. official "You have to help us help you."<sup>94</sup>

### **Current Status of U.S. Aid<sup>95</sup>**

As of December 2013, the U.S. State Department had not obligated any FY2014 FMF or ESF funds for Egypt. For FY2013 ESF, a total of \$231 million remained unobligated. FY2013 FMF funds have been already obligated in two separate tranches. The first tranche consisted of \$650 million in unrestricted FMF (i.e. those funds could be used to support new acquisitions, pay existing contracts, or be used for follow-on-support). A second tranche of FMF totaling \$584 million was obligated by the State Department under Section 617 of the Foreign Assistance Act as amended, which restricts those funds for use in the "orderly termination" of existing contracts only. The U.S. State Department may also use carry-over FMF appropriated in previous fiscal years to pay weapons contracts for Egypt. Although no precise date is known, Administration officials informed CRS that currently available FMF funding could pay all existing weapons contracts for Egypt until the spring of 2014. In order to make funding available for existing weapons contracts, the U.S. government has had to slow down its payment cycles to defense companies.

### **Section 7008 and Egypt: Considerations and Possible Options for Congress**

Since July 3, 2013, some Members of Congress have debated the applicability of Section 7008 to events in Egypt. This multifaceted debate reflects one strand of the vigorously contested discourse on the overall U.S. approach to Egypt. Positions on the issue within the Administration, Congress, and the wider foreign policy community have several permutations. On one end of the spectrum lie those who argue that the United States should continue aid, arguing it is best for U.S. defense posture and regional security. On the other end of the spectrum lie those who assert that the United States should discontinue all aid to Egypt, and that such a policy would not only absolve the United

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<sup>91</sup> The White House, Office of the Press Secretary, Remarks by President Obama in Address to the United Nations General Assembly, September 24, 2013.

<sup>92</sup> U.S. State Department Press Statement, "U.S. Assistance to Egypt," October 9, 2013.

<sup>93</sup> U.S. State Department, Remarks With Egyptian Foreign Minister Nabil Fahmy, John Kerry, Secretary of State, Cairo, Egypt, November 3, 2013.

<sup>94</sup> "Egyptians Following Right Path, Kerry Says," *New York Times*, November 3, 2013.

<sup>95</sup> CRS conversation with U.S. State Department officials, December 2013.

States from supporting an authoritarian state, but would also “normalize” U.S.-Egyptian relations over the long run by removing the United States from direct involvement in the country’s domestic politics. Others, regardless of their views on U.S.-Egyptian relations, publicly favor the general principle of withholding U.S. support in instances where a democratically elected government is removed through unlawful military action and thus advocate for what they argue the letter of the law requires—implementation of Section 7008.

In the middle of the spectrum lie more nuanced positions. Some argue that the United States should suspend economic aid but not military assistance. Others seek a continuation of aid but with conditions that must be certified by the Administration before aid may be obligated; there is additional debate over whether the Administration should have the authority to waive any congressionally-mandated certification requirements and, if so, for how long. Some lawmakers appear to believe that Congress should more clearly specify that military aid to Egypt be used to enhance that country’s counter-terrorism capabilities rather than its conventional military, particularly in view of growing problems with extremist groups in the Sinai Peninsula. Other lawmakers may agree with this approach, but would first require the Administration to report to Congress on a strategy for gradually shifting military aid away from traditional purchases of large-scale conventional armaments.

#### **Israeli Concern over U.S. “Suspension” of Foreign Aid to Egypt**

Since the Egyptian military’s July 3 removal of former president Morsi, various reports indicate that Israeli government officials have both publicly and privately expressed concern over any reduction in U.S.-Egyptian military cooperation, particularly in regard to U.S. aid to Egypt. In early October, as the Administration was still reviewing its assistance policy toward Egypt, Israeli Prime Minister Benjamin Netanyahu remarked that “Our interest is basically having the peace with Egypt continue.... That peace was premised on American aid to Egypt, and I think that for us is the most important consideration, and I’m sure that’s taken under advisement in Washington.”<sup>96</sup> After the Administration announced it was suspending some U.S. assistance to Egypt on October 9, 2013, other Israeli officials expressed concern over the President’s decision. Israeli Home Front Minister Gilad Erdan stated that “I hope this decision by the U.S. will not have an effect and won’t be interpreted as something that should have an effect.”<sup>97</sup> According to one unnamed official, “We have made our opinion known in Washington that we believe everything must be done to stabilize Egypt and to stand by the Egyptian government, even if recent developments have not been exactly democratic.... The important thing is to put Egypt back on track.”<sup>98</sup>

Underlying the debate on U.S. assistance to Egypt is the question of how much leverage U.S. bilateral aid provides the U.S. government in its dealings with Egyptian counterparts. Some argue that the military aid still matters a great deal to the Egyptian military and that when Congress seriously considers altering the traditional \$1.55 billion annual appropriation, of which about \$1.3 billion is military aid, it compels Egypt to address items of stated U.S. interest. For example, Section 690 of P.L. 110-161, the Consolidated Appropriations Act, FY2008, withheld the obligation of \$100 million in FMF or ESF until the Secretary of State had certified, among other things, that Egypt has taken concrete steps to “detect and destroy the smuggling network and tunnels that lead from Egypt to Gaza.” At the time, the Bush Administration withheld FMF, and some observers believe that the Egyptian military subsequently demonstrated more cooperation in countering underground smuggling into Gaza. Representative Steve Israel, for example, reportedly stated: “From the moment

<sup>96</sup> “Israel Expresses Dismay at Cutback of U.S. Aid to Egypt,” *New York Times*, October 9, 2013.

<sup>97</sup> “Aiding and abetting? Washington cuts Egypt Aid despite intense Israeli Lobbying,” *Ha’aretz*, October 10, 2013.

<sup>98</sup> “Cutback of US aid to Egypt leaves Israel Nervous,” *www.FoxNews.com*, October 12, 2013.

Congress began circulating the language conditioning aid to Egypt, the Egyptians began to make an effort to close the tunnels.”<sup>99</sup>

Other officials posit that current U.S. aid gives the United States less leverage than some perceive. Steven Simon, the executive director of the International Institute for Strategic Studies-United States and former senior director for the Middle East and North Africa at the National Security Council, for example, reportedly stated: “If America cut all aid tomorrow, the Obama administration would be accused by all sides of undermining the country’s security and meddling in its affairs. Egypt’s current political crisis dates back to the 1930s, and it is one that Egyptians need to resolve themselves, without the distraction of American involvement. And since cutting aid is unlikely to work in any case, staking American prestige on such a doubtful outcome would be imprudent.”<sup>100</sup>

### **Is Egypt Turning to Russia?**

In November 2013, numerous press reports speculated that due to the partial U.S. suspension of aid to Egypt the previous month, the Egyptian military had engaged the Russian government in an effort to expand bilateral cooperation. Many analysts assert that this Egyptian attempt to “rebalance” its foreign relations was merely an overt attempt to signal the U.S. government that Egypt has alternatives when it comes to military-to-military partnerships. Whether this possible Egyptian perception is true is debatable. The Egyptian armed forces do maintain Russian tanks and other equipment, though according to *Defense Industry Daily*, their high end inventory consists of almost entirely U.S.-origin systems.<sup>101</sup> Reportedly, Egypt and Russia may be discussing an arms deal involving the sale of Russian MiG 29 fighters, anti-aircraft systems, and anti-tank missiles worth potentially \$2 billion. How Egypt would finance such a purchase is an open question, with some sources suggesting that the Arab Gulf states would provide funding. Overall, given the amount of sunk costs (force structure, officer training, weapons purchases) invested in U.S.-Egyptian military cooperation over a 40-year period, it is difficult to perceive how truly willing or able either side is to seek alternatives. According to Minister for International Cooperation and Planning Ziad Bahaa El-Din, Egypt’s attempt to expand ties elsewhere should not be perceived as a “zero-sum game.”<sup>102</sup>

Lawmakers have several options when it comes to continuing, suspending, or rescinding U.S. foreign aid to Egypt. Lawmakers who wish to see an immediate suspension of aid could continue to insist that the Administration make a determination on Section 7008 that a coup has indeed occurred and immediately suspend all eligible aid. Or, lawmakers could push to either pass stand-alone legislation mandating a suspension or place an informal hold on the obligation of funds notified to Congress.

Lawmakers who oppose a possible suspension of aid under Section 7008 could advocate providing the President waiver authority based on national security concerns. They could also support the Administration’s current approach of not formally ruling on whether a coup has occurred. One variant of this approach, which the Administration apparently has at least to some extent embraced, would be to wait and see if the new Egyptian government holds its planned constitutional referendum and parliamentary and presidential elections, at which point suspensions of aid may no longer be warranted in accordance with the letter or spirit of Section 7008. Advocates of a go-slow approach argue that the threat of an aid suspension provides the United States government with some leverage in pressing the Egyptian military to stick to a timetable for returning to civilian rule. Finally, lawmakers also could approve new legislation specifically excluding Egypt from being subject to Section 7008.

<sup>99</sup> “Threat To Cut U.S. Aid Opens Rift With Egypt,” *The Jewish Daily Forward*, January 9, 2008.

<sup>100</sup> “America Has No Leverage in Egypt,” *New York Times*, August 19, 2013.

<sup>101</sup> “All Over Again: Egypt Looks Beyond the USA for New Arms,” *Defense Industry Daily*, November 14, 2013.

<sup>102</sup> “Egypt Says Tension With U.S. a ‘Glitch’ in Storied Ties,” *Bloomberg.com*, November 14, 2013.

If U.S. aid to Egypt were cut or conditioned in some way, Congress could also restore such funding or remove conditions at a later time. If military aid were suspended, U.S. defense companies and their employees that receive contracts derived from FMF-funded Egyptian arms purchases may suffer losses. Should defense firms miss payments as a result of an aid suspension, the United States could be liable to private companies for damages, depending on how each individual defense contract is structured.

## **Other Foreign Aid Considerations for Congress**

The intense focus on foreign aid to Egypt since 2011 has resulted in a number of proposals for broadly restructuring U.S. assistance. Even amongst supporters of continued military aid to Egypt, there appear to be some views that maintaining the status quo (i.e., military aid subsidizing Egyptian purchases of conventional weaponry like tanks and jet fighters) is neither in line with current threats nor is it stabilizing Egypt politically if it is seen as indirectly perpetuating the control of society by the military-guided state. Instead, there are a number of proposed changes to how the United States could reform its aid to Egypt. Possible options for Congress include the following:

- Mandate Administration reporting requirement to Congress on an overall U.S. assistance strategy for Egypt, including possible bilateral agreements on future aid levels subject to the approval of Congress.
- Mandate Administration reporting requirement to Congress outlining how Egypt is supporting U.S. national security goals, such as countering terrorism and promoting regional peace.
- Authorize the Government Accountability Office (GAO) to audit and review existing aid accounts in order to monitor and evaluate current spending to ensure programs are in line with current U.S. priorities.
- Redirect portions of FMF to finance U.S.-Egyptian counter-terrorism cooperation and border security.
- Leverage influence of foreign aid to encourage security sector reform, such as training in best practices and human rights awareness for internal police forces.
- Re-channel military assistance for civilian purposes, such as funding democracy and governance and/or economic development.
- Further condition the release of U.S. aid on specific policy benchmarks, such as cooperation with Israel and maintenance of the 1979 peace treaty, economic reform, tolerance of religious minorities, and freedom of action for foreign and domestic NGOs working on democracy and human rights inside Egypt.
- Encourage more U.S.-Egyptian democratic dialogue and people-to-people exchange, such as inter-parliamentary exchange, study abroad, and scholarships for Egyptian/American students to institutions such as the American University in Cairo (AUC).
- Appropriate economic development funds for specific use in the Sinai Peninsula, conditioned upon the government's commitment to improving residents' legal rights and political representation.
- Expand funds for existing programming, such as the Egyptian-American Enterprise Fund and USAID programs in public health, agriculture, and education.

- Authorize bilateral debt relief and/or loan guarantees for the Egyptian government, conditioned on economic reforms in preparation for a loan facility with the International Monetary Fund.
- Reinstitute P.L.480 U.S. food assistance to Egypt or expand U.S.-Egyptian trade in wheat and other commodities.

## **Where Are U.S.-Egyptian Relations Headed?**

U.S. policy toward Egypt is a polarizing issue and events since July 2013 have exacerbated divisions between supporters of the military and democracy advocates. Within the Administration itself, there are multiple, sometimes conflicting viewpoints over how U.S.-Egyptian relations should be conducted.<sup>103</sup> The current foreign aid policy, articulated on October 9, of providing some assistance while suspending other aid without determining that a coup has occurred, may be the Administration's attempt to satisfy both sides of the policy debate. Critics charge that the President's approach to Egypt is neither maintaining goodwill with the Egyptian military, nor is it satisfying the legal requirements pertaining to standing U.S. law requiring a suspension of assistance to countries in which the military overthrew a democratically elected government.

On the other hand, many observers suggest that the U.S. outcry against the military's removal of an Islamist president has been somewhat muted owing to a general mistrust of the Muslim Brotherhood. During the one year of the Morsi administration, many lawmakers questioned whether the Egyptian government under an Islamist president would respect religious minority rights, freedom of speech, the peace treaty with Israel, and counter-terrorism cooperation with the United States. The breach of the U.S. Embassy in September 2012 and Morsi's November 2012 decree claiming immunity from judicial oversight confirmed what some U.S. observers seem to have feared would result from the rule of an Islamist leader hailing from the Muslim Brotherhood.

Looking ahead to 2014, the Administration may wait to see if the interim government is able to abide by its own "roadmap" for a political transition. In the months ahead, bilateral relations may be dictated by

- the outcome of Egypt's anticipated presidential election,
- the military's ability to combat terrorism in the Sinai and elsewhere,
- the Egyptian government's overall fiscal well-being,
- the willingness of the Arab Gulf states to continue their financial support, and
- the progress in regional diplomacy and whether Egypt becomes actively involved.

Overall, it would seem that there is adequate mutual dependence and shared interests to maintain strong bilateral relations. However, in the months ahead, it may be the Egyptians who seek to more deeply engage with U.S. officials and Members of Congress. The Egyptian military may wish to see a full resumption of U.S. military assistance. On the civilian side, continued fiscal pressure on Egypt's national budget coupled with a desire from Egypt's Gulf Arab benefactors to see further economic reform may lead Egypt to return to the negotiating table with the International Monetary

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<sup>103</sup> For example, see Josh Rogin, "John Kerry Defies the White House on Egypt Policy," *The DailyBeast.com*, November 18, 2013.

Fund. Should that occur in 2014, it could be an opportunity for Western governments to engage Egypt on a variety of issues.

## Appendix. Proposed Legislation in the 113<sup>th</sup> Congress

### Appropriations

**H.R. 2855/S. 1372 – The Draft FY2014 Department of State, Foreign Operations, and Related Programs bill.** On July 18, the House Appropriations Committee released the FY2014 State and Foreign Operations Appropriations bill. The bill would provide \$1.3 billion in FMF for FY2014 (“including for counterterrorism programs, border security programs and activities in the Sinai”), but it does not specify a precise amount of ESF. Section 7042 (1)(A) requires that before funds can be provided to Egypt, the Secretary of State must certify that Egypt is meeting its obligations under the 1979 Egypt-Israel Peace Treaty. Section 7042 (1)(B) requires that before funds are obligated to Egypt, the Secretary of State must certify that the government of Egypt is:

(i) demonstrating a commitment to a pluralistic and inclusive democracy, including by—(I) planning for and conducting free and fair elections; (II) protecting freedom of expression, association, assembly, religion, and due process of law; and (III) respecting the rights of civil society organizations to operate without harassment or interference; and (ii) taking action to eliminate smuggling networks between Egypt and Gaza and to combat terrorism, including in the Sinai.

Section 7042 **does not** provide the Secretary of State with the authority to waive the above-stated conditions on assistance to Egypt for national security reasons. P.L. 112-74 contained a national security waiver. On July 25, the Senate released its version of the bill (S. 1372). Section 7041 of the bill would obligate funds appropriated for Egypt in the bill by making:

- 25% of funding available after enactment of the bill;
- another 25% available if the Secretary of State certifies that the Government of Egypt is supporting inclusive political processes and institutions, including permitting pro-democracy and other civil society organizations to operate freely, has released political prisoners, and is not prosecuting political cases in military courts. The bill would authorize the Secretary of State to waive the above condition not earlier than 3 months after enactment of the bill if the Secretary of State certifies that to do so is important to the national security interests of the United States;
- another 25% available if the Secretary of State that credible elections have been conducted in Egypt and a democratically elected government is in place. The Secretary of State may waive this condition not earlier than 6 months after enactment of the bill if the Secretary certifies that to do so is important to the national security interests of the United States and;
- the final 25% available if the Secretary of State that the newly elected Government of Egypt is taking steps to govern democratically and protect human rights and the rule of law (including the rights of women and religious minorities).

The bill, among other things, also would require the Secretary of State to reduce ESF to Egypt by an amount the Secretary determines is equivalent to that expended by the United States Government for bail (paid by the U.S. government in 2012 to release imprisoned American employees of NGOs working in Egypt), and by nongovernmental organizations for legal and court fees, associated with democracy-related trials in Egypt. The bill also would require a review of U.S. assistance to Egypt.

### **Amendments Voted on**

**Senate Amendment 9 to H.R. 325, No Budget, No Pay Act of 2013** – This amendment, had it been adopted, would have prohibited the United States Government from licensing, approving, facilitating, or otherwise allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or other defense articles or services to the Government of Egypt. On January 31, 2013, the amendment was tabled by a vote of 79 to 19.

**Senate Amendment 471 to S.Con.Res. 8 the FY2014 Budget Resolution** – This amendment, had it been adopted, would have authorized the Chairman of the Committee on the Budget of the Senate to revise the allocations of a committee or committees, aggregates, and other appropriate levels in this resolution for one or more bills, joint resolutions, amendments, motions, or conference reports relating to reducing foreign assistance to Egypt and increasing funding for the Missile Defense Agency to establish a land-based missile defense capability on the east coast of the United States, by the amounts provided in such legislation for those purposes, provided that such legislation would not increase the deficit over either the period of the total of fiscal years 2013 through 2018 or the period of the total of fiscal years 2013 through 2023. On March 23, 2013, the amendment was not agreed to in the Senate by a vote of 25 to 74.

**Senate Amendment 1739 to S. 1243, the Transportation, Housing and Urban Development, and Related Agencies Appropriations bill** – This amendment, had it been adopted, would have called on the United States government to refrain from providing aid to the government of Egypt in accordance with section 7008 of the Department of State, Foreign Operations, and Related Programs Act, 2012. It, among other things, also would have suspended the deliveries of defense articles to Egypt until the President certifies to Congress that democratic national elections have taken place in Egypt followed by a peaceful transfer of power. On July 31, 2013, the amendment was tabled by a vote of 86 to 13.

### **Other Legislation**

**S. 1857, the Egypt Assistance Reform Act of 2013** – This bill, if passed, would amend the Foreign Assistance Act of 1961 as amended, to prohibit foreign assistance to a government of a foreign country whose democratically elected head of government is deposed by coup d'état or decree in which the security services of that country play a decisive role. The bill would provide the Secretary of State with the authority to waive this prohibition for a 180-day period provided certain certifications are made. In addition, the bill also would, among other things, condition the provision of defense equipment and services to Egypt on a number of specific conditions, which may also be waived by the Secretary of State. Finally, the bill mandates that the Administration shall submit to Congress a comprehensive strategy for modernizing and improving United States security cooperation with, and assistance for Egypt.

**H.R. 2397, the Department of Defense Appropriations Act, 2014** – This bill, which was passed by the House on July 24, 2013, includes Section 10035 which states that “no funds made available by this Act may be used by the Department of Defense to fund military operations in Egypt, nor may funds made available by this Act be used by the Department of Defense to fund individuals, groups, or organizations engaged in paramilitary activity (as that term is used in section 401 of title 10, United States Code) in Egypt.”

**Senate Amendment 2187 to S. 1197, the National Defense Authorization Act, 2014** – This amendment, if adopted, would prohibit the sale, lease, transfer, retransfer, or delivery of U.S.

defense articles or defense services to Egypt until 15 days after the President a certification that the Government of Egypt: “(i) continues to implement the Peace Treaty between the State of Israel and the Arab Republic of Egypt, signed at Washington, March 26, 1979; (ii) is taking necessary and appropriate measures to counter terrorism, including measures to counter smuggling into the Gaza Strip by, among other measures, detecting and destroying tunnels between Egypt and the Gaza Strip and securing the Sinai peninsula;(iii) is allowing the Armed Forces of the United States to transit the territory of Egypt, including through the airspace and territorial waters of Egypt; (iv) is supporting a transition to an inclusive civilian government by demonstrating a commitment to, and making consistent progress toward, holding regular, credible elections that are free, fair, and consistent with internationally accepted standards; (v) is respecting and protecting the political and economic freedoms of all residents of Egypt, including taking measures to address violence against women and religious minorities; (vi) is respecting freedom of expression and due process of law, including respecting the rights of women and religious minorities; and(vii) is permitting nongovernmental organizations and civil society groups in Egypt, the National Democratic Institute, the International Republican Institute, Freedom House, and the Konrad Adenauer Stiftung to operate freely and consistent with internationally recognized practices.” This certification shall not apply to defense articles and defense services to be used primarily for supporting or enabling counterterrorism, border and maritime security, or special operations capabilities or operations.

This provision does include a national security waiver, which may be used by the President for a 180-day period if, not later than 15 days before the waiver takes effect, the President: certifies that allowing sales and transfers of defense equipment and/or services to Egypt is in the vital national security interests of the United States; and provides a report analyzing the extent to which the actions of the Government of Egypt do or do not satisfy each of the criteria described previously (e.g., implementing the Peace Treaty between the State of Israel and the Arab Republic of Egypt, respecting freedom of expression and due process of law, including respecting the rights of women and religious minorities). The President may extend the effective period of a waiver for an additional 180-day period if, not later than 15 days before the extension takes effect, the President submits an updated certification and report.

This amendment also would prohibit U.S. economic assistance to Egypt as direct budget support until 15 days after the Secretary of State certifies that: providing such assistance is in the national security interest of the United States; and the Government of Egypt continues to implement the Israeli-Egyptian peace treaty; is supporting the transition to an inclusive civilian government by demonstrating a commitment to hold regular, credible elections that are free, fair, and consistent with internationally accepted standards; is respecting and protecting the political, economic, and religious freedoms of all residents of Egypt, including taking measures to address violence against women and religious minorities; is permitting nongovernmental organizations and civil society groups in Egypt, including the National Democratic Institute, the International Republican Institute, Freedom House, and the Konrad Adenauer Stiftung to operate freely and consistent with internationally recognized standards; and is demonstrating a commitment to implementing economic reforms, including reforms necessary to reduce the deficit and ensure economic stability and growth. This section also includes a national security waiver, the use of which is restricted along similar lines to before mentioned section on arms sales. The amendment also specifies that in any fiscal year, not less than \$50 million shall be provided through the Department of State and the National Endowment for Democracy for democracy and governance programs in Egypt. T

**Senate Amendment 2260 to S. 1197, the National Defense Authorization Act, 2014** – This amendment, if adopted, would prohibit funds authorized to be appropriated in the bill from being used for United States participation in joint military exercises with Egypt if the Government of

Egypt abrogates, terminates, or withdraws from the 1979 Egypt-Israel peace treaty. The President may waive this limitation if the President certifies to Congress in writing that the waiver is in the national security interests of the United States.

**Senate Amendment 2264 to S. 1197, the National Defense Authorization Act, 2014** – This amendment, if adopted, would adopt a sense of Congress that it “should be the policy of the United States to consider the willingness of the Government of Egypt to sign the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction, done at Paris January 13, 1993 (commonly known as the “Chemical Weapons Convention”), before resuming sales of defense articles or defense services to Egypt.”

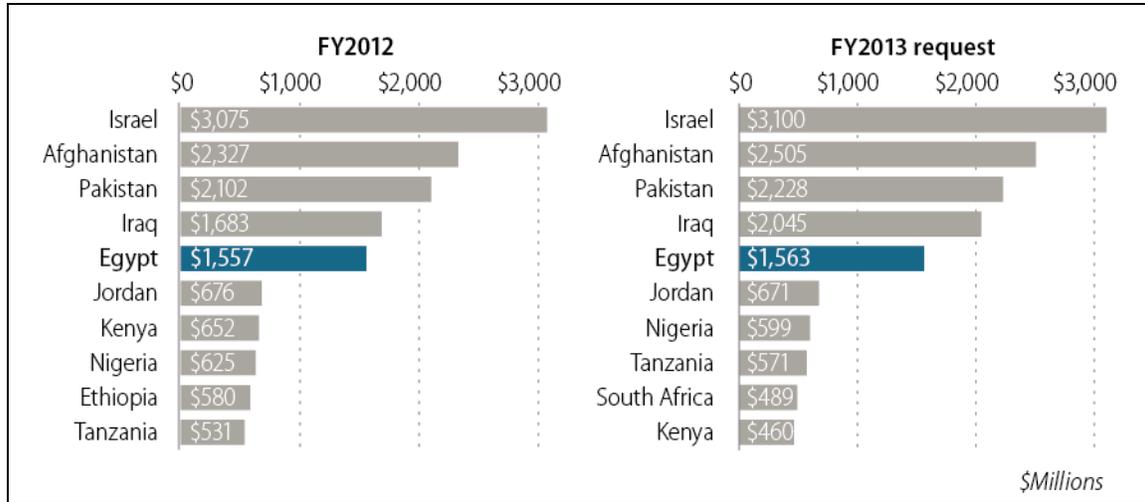
Other proposed legislation includes:

- S. 201—a bill that would prohibit the U.S. government from licensing, approving, facilitating, or otherwise allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or other specified defense articles or services to Egypt.
- S. 207—a bill that would prohibit the U.S. government from allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or certain other defense articles or services to Egypt until the President certifies to Congress that Egypt has agreed to (1) continue to uphold its Camp David Peace Accords commitments, (2) provide proper security at U.S. embassies and consulates, and (3) end its systematic exclusion and silencing of all official minority political opposition parties and engage in dialogue for a power-sharing government with such parties.
- S. 984—A bill that would that would prohibit appropriations to be used for United States participation in joint military exercises with Egypt if the Government of Egypt abrogates, terminates, or withdraws from the 1979 Egypt-Israel peace treaty signed at Washington, DC, on March 26, 1979. The President may waive this limitation if the President certifies to Congress in writing that the waiver is in the national security interests of the United States.
- S. 1278—a bill that would suspend the provision of specified defense articles and services, and the processing of letters of offer and acceptance for future arms sales, until the President certifies to Congress that democratic national elections have taken place in Egypt followed by a peaceful transfer of power.
- H.R. 276—a bill that would prohibit any funds made available after FY2013 to any federal department or agency from being used to provide assistance to Egypt.
- H.R. 416—a bill that, among other things, would limit specified security and economic assistance to Egypt unless the Secretary of State certifies to Congress every six months that the Egyptian government (1) is not controlled by or under the influence of a foreign terrorist organization, or that no supporter of a foreign terrorist organization serves in a policy-making position in the government; (2) has implemented legal reforms that protect the political, economic, and religious freedoms and human rights of all citizens and residents of Egypt; (3) is fully implementing the Israel-Egypt Peace Treaty; and (4) is taking verifiable steps to destroy the smuggling network and tunnels between Egypt and the Gaza Strip, and is cracking down on extremist groups in the Sinai Peninsula.

- H.R. 939—A bill that would prohibit the U.S. government from allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or certain other defense articles or services to Egypt until the President certifies to Congress that Egypt: (1) is curtailing support for terrorist activities conducted by foreign terrorist organizations; (2) has adopted policies that promote religious and political freedoms; (3) is carrying out concerted efforts to enforce access along the Sinai Peninsula, including preventing illegal weapons smuggling between Egypt and Gaza; and (4) is fully implementing the 1979 Peace Treaty between Egypt and Israel.
- H.R. 1039—A bill that would rescind \$500 million of unobligated amounts of foreign assistance for Egypt and appropriates \$500 million for the Department of Defense (DOD) tuition assistance program for FY2013.
- H.R. 1302—A bill that would prohibit military credit assistance to Egypt under the Arms Export Control Act with respect to funds made available to any federal department or agency beginning with FY2014.
- H.R. 1922—a bill that, among other things, would prohibit funds from being used to provide foreign assistance to: (1) any other country unless the applicable government provides assurances that it will not provide unpermitted assistance to Iran, North Korea, Syria, Egypt, and Pakistan; or (2) a private voluntary organization unless it provides assurances that it will not assist or enter contracts to provide unpermitted assistance to such countries. Prescribes penalties for violations of such prohibitions.
- H.R. 1960—National Defense Authorization Act for Fiscal Year 2014—Section 1242 includes a sense of Congress that, among other things, states that “the United States continues to have considerable concerns about the intentions and actions of the Egyptian Muslim Brotherhood and whether the government of President Morsi is committed to a pluralistic, democratic Egypt.” This section also states that “the United States military relationship with the Egyptian military is long-standing and should remain a key pillar to, and component of, United States engagement with Egypt.” The bill also would require that the Secretary of Defense, in consultation with the Secretary of State, shall submit to the appropriate congressional committees a report that contains a comprehensive plan for United States military assistance and cooperation with Egypt. It also would require that the Comptroller General of the United States submit to the appropriate congressional committees a report that provides recommendations regarding additional actions with respect to the provision of United States security assistance to Egypt.
- H.R. 2544—a bill that would prohibit specified U.S. economic assistance and opposes World Bank and International Monetary Fund (IMF) assistance to the government of Egypt unless the President certifies to Congress that the government of Egypt: (1) has implemented legal reforms to protect political, economic, and religious freedoms and human rights; (2) is demonstrating a commitment to free and fair elections; (3) is implementing all measures in the 1979 Egypt-Israel Peace Treaty; (4) is taking action to eliminate smuggling networks, destroy tunnels between Egypt and the Gaza Strip, and combat terrorism in the Sinai; (5) in consultation with the Department of Defense (DOD), has produced an analysis of Egypt’s current security needs; and (6) has lifted restrictions in law and practice on

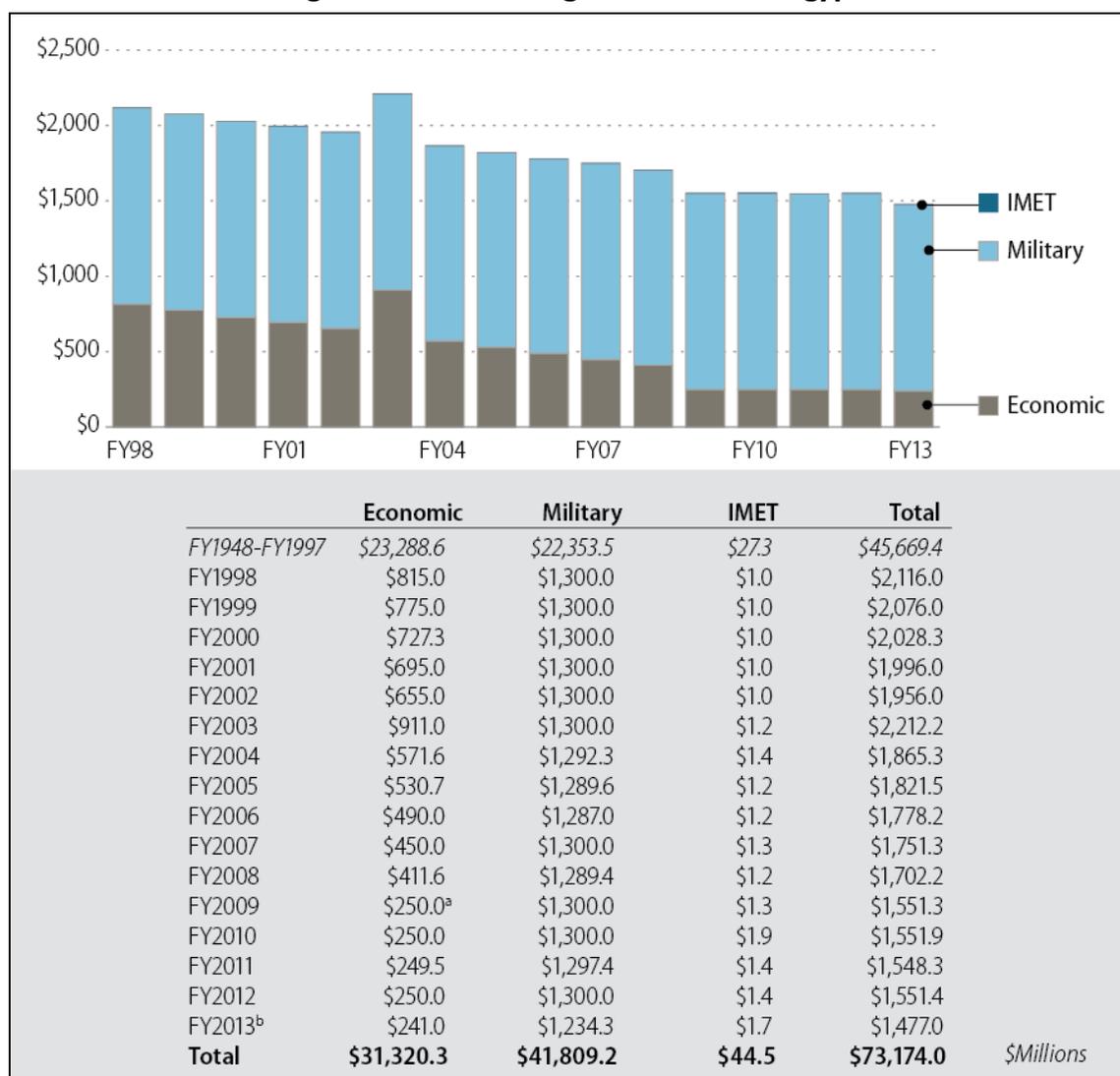
the work and funding of Egyptian and international nongovernmental human rights and democracy organizations.

**Figure A-1. Top 10 Recipients of U.S. Foreign Assistance, FY2012 and FY2013 Request**



**Source:** Allocation tables provided to CRS by the Department of State, F Bureau. Does not include funding from independent agencies such as MCC, which, if included, could change the ranking of Tanzania. Graphic created by CRS.

Figure A-2. U.S. Foreign Assistance to Egypt



**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. [Click here](#) and type table note
- b. Reduced due to sequestration.

**Table A-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 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8

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

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

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

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

\* = less than \$100,000

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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