



**Congressional
Research Service**

Informing the legislative debate since 1914

Egypt: Background and U.S. Relations

Jeremy M. Sharp

Specialist in Middle Eastern Affairs

March 3, 2015

Congressional Research Service

7-5700

www.crs.gov

RL33003

Summary

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

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

U.S. 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 114th Congress.

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

P.L. 113-235, the FY2015 Consolidated Appropriations Act, contains a number of provisions and conditions on U.S. assistance to Egypt similar to what Congress included in the FY2014 appropriations act (P.L. 113-76) with one significant exception: Section 7041 (a)(6)(C) of the FY2015 act authorizes the Secretary of State to provide assistance to Egypt, *notwithstanding the certification requirements* specified both in the FY2015 Act and in the FY2014 Act, if the Secretary determines that it is important to the national security interest of the United States to provide such assistance. This determination-based waiver effectively provides for the removal of limits imposed by Congress that prevented the provision of assistance to Egypt until democracy-based conditions were met by the Egyptian government. As of February 2015, the Secretary of State has not made a determination that would waive democracy-related certification requirements and allow for the provision of assistance. Egypt plans to hold legislative elections in March 2015.

For FY2016, the President has requested that Congress appropriate \$1.3 billion in military assistance for Egypt. The President also is asking Congress to provide \$150 million in economic aid, which would be the lowest amount of bilateral economic grant assistance given to Egypt since 1978.

Contents

U.S. Policy: How Important is Egypt?	1
Current Administration Policy.....	2
Weapons Suspension.....	3
Domestic Politics.....	4
Silencing Dissent and Violating Human Rights.....	6
Economy.....	7
Terrorism and Insurgency in the Sinai Peninsula.....	8
Foreign Relations.....	9
Israel and Hamas	9
Libya.....	10
Russia	11
U.S. Foreign Assistance to Egypt	11
Overview	11
Military Aid and Arms Sales	13
Overview	13
Special Military Assistance Benefits for Egypt.....	14
FMF to Egypt and Existing Defense Contracts.....	16
U.S.-Supplied Weapons Systems	17
Economic Aid.....	19
Overview.....	19
The Enterprise Fund.....	21
Egypt and the FY2015 Consolidated Appropriations Act	22
Current Status of U.S. Aid.....	25
How Valuable is U.S. Aid to Egypt?.....	25
Other Foreign Aid Considerations for Congress	26

Figures

Figure 1. Egypt at a Glance	4
Figure 2. GDP Growth.....	8
Figure 3. Islamic State Sinai Province.....	9
Figure 4. U.S. Assistance to Egypt, FY2011-FY2016 Request	13
Figure 5. The Military Aid “Pipeline”	16
Figure 6. The Egyptian-American Enterprise Fund.....	22
Figure 7. U.S. Foreign Assistance to Egypt.....	28

Tables

Table 1. U.S. Foreign Assistance to Egypt, 1946-1997	29
--	----

Contacts

Author Contact Information..... 31

U.S. Policy: How Important is Egypt?

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

Demographically, Egypt, with a population of 83 million, is by far the largest Arab country, and by 2030 its population may exceed 100 million people. Although it may not play the same type of leading political or military role in the Arab world as it has in the past, Egypt still has significant “soft power.” The Arab League is based in Cairo, as is Al Azhar University, which claims to be the oldest university still functioning and has symbolic importance as a leading source of Islamic scholarship. Additionally, Egypt’s 1979 peace treaty with Israel remains to this day one of the single most significant diplomatic achievements for the promotion of Arab-Israeli peace. While people-to-people relations remain cold overall, Israel and the military-backed Egyptian government that has been in power since July 2013 have increased their cooperation in common cause against Islamist militants and instability in the Sinai Peninsula and Gaza Strip.

And yet, some U.S. policymakers may view Egypt as less strategically important to U.S. national security interests than in previous eras. In recent years, U.S.-Egyptian military cooperation has lacked a signature cooperative endeavor. The last significant U.S.-Egyptian joint military operation was in 1991, when Egypt contributed 20,000 troops to Operation Desert Storm.¹ With the United States continually engaged in military operations against terrorist groups across the broader Middle East, the U.S. military seeks partners that can provide intelligence, training, and counter-insurgency support. Analysts consider the Egyptian armed forces to be more oriented to fight interstate rather than asymmetric warfare.

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

The terrorist attacks of September 11, 2001 also may have profoundly and negatively impacted how some U.S. policymakers view Egypt. Whereas the bilateral relationship had previously focused on promoting regional peace and stability, the 9/11 attacks reoriented U.S. policy, as Americans considered possible links between authoritarianism and terrorism. Egypt has been at the forefront of this reorientation, as several prominent Egyptian terrorists helped form the original core of Al Qaeda.² The Egyptian government has largely rejected the idea that its authoritarian governance has fostered transnational Islamist terrorism and has responded defensively to changes in U.S. policy that have gradually increased calls for political reform in Egypt.

¹ In Operation Enduring Freedom in Afghanistan, Egypt contributed a field hospital at Bagram.

² The Egyptian national Mohamed Atta was one of the leaders of the 9/11 attacks and the Egyptian cleric Ayman al-Zawahiri remains the head of Al Qaeda worldwide.

Egypt's role in the so-called Arab Spring of 2011 briefly elevated the country toward the top of the U.S. foreign policy agenda, as officials tried to delicately navigate a transitional period that witnessed an existential power struggle between Islamists and the military. After a two-and-a-half year period of U.S. efforts to promote a democratic transition in Egypt, the return of authoritarian rule that began with the military's July 2013 takeover has left U.S. policymakers in a quandary. President Obama and members of his administration continue to express the view that authoritarian governance and the denial of basic human and political rights create atmospheres conducive to the growth of violent extremism. Egypt's government describes its Islamist adversaries as terrorists and views U.S. attempts to dictate terms or impose conditions related to Egypt's internal affairs as naïve, malign or both. Instead, Egypt's rulers have welcomed the support of like-minded Arab governments in the Gulf region that view political Islam as an existential threat.

How Egypt's military-backed government copes with terrorist attacks emanating from Libya and the Sinai Peninsula may test its relationship with the United States in the months ahead. While U.S. officials have been quick to condemn repeated terrorist attacks against Egypt and have stressed that the United States respects the right of self-defense of all nations, the Obama Administration has stressed that many conflicts across the region require political and not just military solutions. There is some concern that while the United States has attempted to broker political solutions to the multitude of conflicts across the region, Egypt's counterterrorism response at home and in its near abroad may be too heavy-handed and indiscriminate.

In the months and years ahead, lawmakers may reexamine Egypt's relative importance in the region. Some policy questions for Congress include:

- How stable is Egypt? Given the violent turmoil in Libya, Syria, Iraq, and Yemen, what is the likelihood of prolonged civil strife in the Arab world's most populous country?
- Is Egypt inwardly oriented or does it seek to be a regional leader? What effects might Egyptian action in Libya have on Egypt's security?
- Is lasting stability in Egypt a realistic prospect? Will the reemergence of authoritarianism increase the threat of transnational terrorism emanating from Egypt?
- What level of U.S. government attention and resources should be devoted toward Egypt?

Current Administration Policy

The Obama Administration has attempted to craft a policy toward Egypt that continues strong military-to-military ties without condoning Egypt's crackdown against dissent. President Obama remarked in a May 28, 2014 speech at the U.S. Military Academy at West Point that:

In Egypt, we acknowledge that our relationship is anchored in security interests—from the peace treaty with Israel, to shared efforts against violent extremism. So we have not cut off cooperation with the new government. But we can and will persistently press for the reforms that the Egyptian people have demanded.³

³ Remarks of President Obama, Commencement Address, West Point, New York, May 28, 2014.

The President's 2015 National Security Strategy also alludes to this balance between principles and interests, noting that "We will maintain strategic cooperation with Egypt to enable it to respond to shared security threats, while broadening our partnership and encouraging progress toward restoration of democratic institutions."

Principles Versus Interests

For the United States, especially in the last few years, Egypt has presented serious challenges to U.S. policymakers seeking to balance competing priorities. On the one hand, the Obama Administration would like to see Egypt move toward a more democratic form of government and market-based economy in order to address the grievances of its relatively young population. On the other hand, Egypt's military, which has cultivated little in terms of democratic practices and institutions since the end of Egypt's monarchy in 1952, has and still remains the country's primary political actor, a reality that may benefit short-term U.S. national security interests but arguably hinders long-term hopes for Egypt's development and stability. If the United States fully embraces the military, it risks alienating those Egyptians who espouse liberal democracy or an Islam-based system of governance. If the United States emphasizes democracy, Egypt's security apparatus typically turns against it, accusing American diplomats of, among other things, supporting the Muslim Brotherhood, spreading neo-colonialism, and undermining Egypt's stability.

With the Obama Administration preoccupied with Operation Inherent Resolve against the Islamic State in Iraq and Syria and with ongoing nuclear negotiations with Iran, Egypt has been less of a regional priority for the U.S. government. As Egypt continues to crackdown against all forms of dissent, the Obama Administration and the Egyptian government have competing narratives of how best to secure Egypt's stability.

Weapons Suspension

In October 2013, the Administration announced that it would withhold the delivery of certain large-scale military systems (such as F-16s, Apache helicopters, Harpoon missiles, and M1A1 tanks) to the Egyptian government pending credible progress toward democracy. As of February 2015, the Administration has continued to suspend the deliveries of F-16s, M1A1s, and Harpoon missiles. Apache helicopters were delivered to Egypt in December 2014.

Recently, in response to terrorist attacks directed against Egypt and the ongoing nuclear negotiations with Iran, some lawmakers and commentators have called on the Administration to end its weapons suspension. In February 2015, Representative Kay Granger, Chairwoman of the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs, wrote to President Obama stating that "They [the Egyptians] need these planes and other weapons immediately to continue the fight against ISIL and other terrorists threatening Egypt's security, but your Administration has refused to use the authority Congress provided you in law to provide Egypt these weapons."⁴ On February 27, 2015, Columnist David Ignatius wrote that "A strong, U.S.-backed Egypt can stiffen the backbone of the Sunni world and ease fears that Washington is forming a new alliance with Iran. That's the best argument for helping Sisi - that he can help restore the Sunni-Shiite balance on which regional stability depends, especially after a nuclear deal with Iran."⁵

⁴ Letter to President Obama From Rep. Granger Regarding Weapons Deliveries to Egypt to Fight ISIL
Rep. Kay Granger, R-Texas, February 20, 2015.

⁵ "The U.S. is the ally Egypt needs," *Washington Post*, February 27, 2015.

Figure I. Egypt at a Glance



Domestic Politics

When then-General and now President Abdel Fatah al Sisi assumed executive power in July 2013, the period of fluidity that characterized Egyptian politics following the 2011 resignation of former President Hosni Mubarak ended. Centralized authority is, once again, in the hands of a former

military commander. Formally, Egypt is a republic, governed by a constitution⁶ that was approved in a national referendum in January 2014. In June 2014, Sisi was elected president, garnering 96.91% of the vote amidst a political atmosphere that the Obama Administration and some foreign observers termed “restrictive.”⁷

For practical purposes, many analysts have characterized Sisi’s Egypt as the re-creation of an authoritarian regime, in which the civilian government is a facade covering the real authority of the military.⁸ Sisi’s proponents and critics all claim to have a popular mandate in support of either stability or democracy. Nonetheless, whether it is due to government suppression of dissent, widespread approval of the regime, or citizenry fatigue, popular protests are less common than they were between 2011 and 2013. According to one report, “Politics in Egypt today is hardly dead, but it is weak, circumscribed, and contained.”⁹

The Muslim Brotherhood, just a few years removed from its political ascendancy, once again finds itself outlawed. Many of its leaders remain imprisoned, including former president Mohamed Morsi. Egyptian authorities have formally designated it as a terrorist organization. The Brotherhood’s political party, the Freedom and Justice Party, has been dissolved by court order. Many former Brotherhood members are in exile, and the Egyptian government has accused the group of fomenting violence, which it denies. According to one article in *Foreign Affairs*, “The Brotherhood’s stubbornness—even in the face of such severe setbacks—is not particularly surprising. Far from being a ‘moderate’ or ‘pragmatic’ organization, as many optimistic analysts once described it, the Brotherhood is a deeply ideological, closed vanguard.”¹⁰

For two-and-a-half years, Egypt has been without an elected parliament,¹¹ and successive Egyptian presidents have issued new laws by executive decree,¹² including:

- **The Protest Law (November 2013).** This law replaced the state of emergency then in effect. It bans public gatherings of more than 10 people without approval from the police, which must receive prior notification of any planned gathering. Most importantly, the law authorizes police to ban any protest deemed a threat to “public order.”
- **The Electoral Law (June 2014).** This law creates a 567-seat Parliament, of which 420 seats are elected via the individual candidate system, 120 are elected by a party list system,¹³ and 27 are allocated via presidential appointment in order to increase

⁶ An unofficial English translation of the constitution is available here: [<http://www.sis.gov.eg/Newvr/Dustor-en001.pdf>]

⁷ The White House, Office of the Press Secretary, Statement by the Press Secretary on the Presidential Election in Egypt, June 04, 2014.

⁸ “Egypt’s Double Standard,” *Washington Post*, December 7, 2014.

⁹ Nathan J. Brown, Katie Bentivoglio, “Egypt’s Resurgent Authoritarianism: It’s a Way of Life,” *Carnegie Endowment for International Peace*, October 9, 2014.

¹⁰ Eric Trager and Gavi Barnhard, “Brothers in Trouble? Goma Amin and the Future of the Muslim Brotherhood,” *Foreign Affairs*, September 24, 2014

¹¹ A court dissolved the lower house of parliament in June 2012, and the upper house was abolished after the enactment of the 2014 constitution.

¹² Article 156 of the 2014 constitution authorizes the president, in the event that the House of Representatives is not in session, to issue decrees that have the force of law.

¹³ The electoral law also creates a winner-take-all system for party lists rather than a proportional vote system. In addition, it stipulates that party lists must reserve seats for female, Christian, youth, disabled, and rural candidates.

the representation of Coptic Christians and women. This law allows authorities to disqualify any candidate who is deemed to support a religiously-based or religiously-discriminatory organization, provisions directed against candidates from the already outlawed Muslim Brotherhood.¹⁴

- **The Anti-Terrorism Law (February 2015).** This law authorizes the authorities to act against groups or individuals deemed a threat to national security. The law defines “terrorist entities” as groups or organizations that “through any means inside or outside the country, seek to call for the disabling of laws, or prevent state institutions or public authorities from functioning, or seek to attack the personal liberty of citizens, or other freedoms and rights granted [to citizens] by the law and constitution, or to harm national unity or social peace.”

The first round of Egypt’s 2015 Parliamentary elections had been scheduled to take place beginning on March 22. However, on March 1, the Supreme Constitutional Court (SCC) ruled that certain provisions in the Elections Constituency Division Law are unconstitutional, leading authorities to delay parliamentary elections for at least several months until the law can be revised. With 420 members to be elected via the individual candidate system, many analysts expect that former ruling elites will dominate the new parliament and follow the executive’s lead in lawmaking.¹⁵

Recent Violence in Egypt

Opponents of the government, whether they are offshoots or sympathizers of the Muslim Brotherhood, soccer fans known as “Ultras,” disaffected youths, or terrorist groups, have been frequently targeting police officials, public spaces, and the military—presumably to reduce public confidence in the state and sow panic. Although much anti-government violence occurs in the Sinai Peninsula, it also happens in Cairo, Alexandria, and other cities. Explosive devices have been found and disarmed at Cairo International Airport, and small improvised explosive devices (IEDs) have gone off in public squares and at police checkpoints. One group, calling itself the Popular Resistance Movement in Giza, has attacked a Cairo shopping mall and committed arson outside a Cairo branch of the Emirates National Bank of Dubai.¹⁶

Silencing Dissent and Violating Human Rights

President Sisi and the security apparatus’s reassertion of control over Egypt has been contentious; many Egyptians and foreign observers have accused the government of committing serious abuses of human rights against a broad spectrum of opponents, secular and Islamist alike. Sisi and his supporters level similar charges against their Muslim Brotherhood predecessors. Moreover, the ongoing crackdown against dissent may have come not only with a significant human cost, but also at a significant cost to the country’s international reputation, particularly in the West, where many observers had hoped that the 2011 uprising against Mubarak¹⁷ would change Egypt’s trajectory for the better. Some notable incidents since Sisi took power include:

- **Killings at al Nahda and Rabaa al Adawiya Squares:** In August 2014, Human Rights Watch published a report documenting how a year earlier, during the

¹⁴ “Egyptian Election Law Helps to Block Opposition,” *New York Times*, June 6, 2014.

¹⁵ The 2014 Egyptian constitution empowers the parliament with impeachment authority (Article 159) and the ability to hold votes of no confidence against the government.

¹⁶ *Jane’s Intelligence Weekly*, February 6, 2015.

¹⁷ Former president Hosni Mubarak, age 86, remains held at a military hospital in a southern suburb of Cairo. In late 2014, a Cairo Criminal Court dropped charges against Mubarak relating to the killing of protesters in January 2011. After four years in prison, his two sons were released in early 2015.

military's overthrow of the Morsi government, police and army soldiers, on orders from high level officials, fired live ammunition against peaceful demonstrators encamped in several public squares, resulting in the killing of at least 1,150 demonstrators by Egyptian security forces, in what Human Rights Watch claims "probably amounts to crimes against humanity."¹⁸ The Egyptian military portrays these events from an entirely different perspective, asserting that the encampments were a threat to national security and that those who occupied them provoked violence against police.

- **Conviction of Three Al Jazeera Journalists:** In June 2014, a Cairo criminal court convicted three Al Jazeera journalists (Australian reporter Peter Grete, Egyptian-Canadian bureau chief Mohamed Fahmy, and Egyptian producer Baher Mohamed) of spreading false news and collaborating with the Muslim Brotherhood after the overthrow of President Morsi in 2013. Their sentences of seven years in prison drew international condemnation. Secretary of State John Kerry noted after their conviction that "Today's verdicts fly in the face of the essential role of civil society, a free press, and the real rule of law."¹⁹ In early February 2015, Grete was released and deported. Several weeks later, Fahmy and Mohamed were released from jail, though the case against them is still pending. Reporters Without Borders ranks Egypt as 158th out of 180 countries in its 2015 World Press Freedom Index.
- **Mass Death Sentences:** Since 2013, there have been several instances in which Egyptian judges have sentenced hundreds of Muslim Brotherhood supporters to death. In December 2014, a court sentenced 188 to death over the killing of 13 policemen in August 2013.²⁰ Earlier in 2014, a judge issued two mass death sentences in which a total of 1,212 people were sentenced. After a court review, many but not all of these sentences were changed to life in prison.

Economy

Egypt's economy and national budget are slowly stabilizing, due in large part to the financial largesse of the Gulf Arab monarchies. Countries such as the United Arab Emirates, Kuwait, and Saudi Arabia have injected billions of dollars into the economy and treasury, providing cash grants, concessional loans, and fuel imports. Since the ouster of former president Morsi in July 2013, Gulf states have provided government-to-government aid to Egypt of least \$20 billion, with billions more coming in the form of private sector investment.²¹ This assistance has bolstered the Sisi government and given it the confidence to enact unpopular but fiscally prudent measures such as reducing fuel subsidies by 30%. The International Monetary Fund (IMF) projects economic growth of 3.8% in 2015 and increases in growth toward 5% in the years ahead. The country has seen a rebound in international tourism and increases in tax revenue collected, and has benefitted from the global drop in oil prices.

¹⁸ See, "All According to Plan: The Rab'a Massacre and Mass Killings of Protesters in Egypt," *Human Rights Watch*, August 12, 2014.

¹⁹ U.S. State Department, "Conviction of Al Jazeera Journalists," John Kerry, Secretary of State, June 23, 2014.

²⁰ In early 2015, an Egyptian court upheld 183 of these death sentences.

²¹ The Economist Intelligence Unit, *Egypt Country Report*, January 28, 2015.

Despite a falling budget deficit, Egypt's fiscal picture remains problematic. The deficit, which was 12.8% of GDP in 2014, has been manageable only because of the massive infusion of Gulf aid, which constituted 4% of GDP in 2014. Government subsidies on food and fuel consume nearly 43% of state revenue. The deficit has been financed mostly by domestic banks, and the government is eager for foreign investors to buy Egyptian treasury bonds.

Foreign investors, for their part, seek assurances that Egypt is headed in the right direction economically and is politically stable. Egyptian officials have attempted to persuade the international community that Egypt is a safe investment. President Sisi spoke in January 2015 at the World Economic Forum in Davos,

Switzerland, where he told listeners that Egypt would streamline its bureaucracy and pass new legislation to ease the way for foreign investment.²² Egypt also has embarked on major infrastructure projects, such as an \$8.5 billion expansion of the Suez Canal, a megaproject that is expected to triple annual Suez Canal revenue.

At this time, the IMF has no plans to extend loans to Egypt. The IMF and Egypt have had extensive talks over the past few years to reach a loan agreement, to no avail.²³ The IMF has encouraged Egypt to reduce subsidies and enact a more flexible currency rate, both of which Egypt has done to some extent. Overall, Egypt still has considerably low foreign currency reserves of \$15.3 billion (as of December 2014). Reserves were over \$36 billion before the 2011 uprising.

Terrorism and Insurgency in the Sinai Peninsula

One of the biggest concerns for Egyptian and regional stability over the past several years has been the Sinai Peninsula, where a mix of radicalized indigenous Bedouin Arabs, foreign fighters, and Palestinian militants from neighboring Gaza have reportedly formed terrorist cells²⁴ and targeted both Egypt and Israel. Egypt has declared a state of emergency in northern Sinai, where most of the attacks take place. Recent major attacks include:

Figure 2. GDP Growth



Source: Financial Times, January 28, 2015

²² "Egypt Sisi says all in "Same Battle" against Terror," BBC Monitoring Middle East, January 22, 2015.

²³ See CRS archived report, *Egypt and the IMF: Overview and Issues for Congress*, <http://www.crs.gov/pages/Reports.aspx?PRODCODE=R43053&Source=search>

²⁴ On December 18, 2014, the U.S. State Department designated the Egyptian Afnad Misr group as Specially Designated Global Terrorists under Executive Order (E.O.) 13224. Afnad Misr splintered from Ansar Bayt al Maqdis (ABM), another designated (in April 2014) foreign terrorist organization (FTO) and Specially Designated Global Terrorist entity. In early November 2014, Ansar Bayt al Maqdis declared its allegiance to the leader of the Islamic State organization and changed its name to the Sinai Province (Wilayat Sinai) of the Islamic State (IS-SP).

- In January 2015, terrorists belonging to the Sinai Province, an affiliate of the Islamic State, attacked a military base and hotel in north Sinai, killing 29 and wounding at least 58.
- In October 2014, militants used suicide vehicle bombs to attack an Egyptian Army mechanized detachment at a checkpoint near the town of Sheikh Zuwayd in North Sinai. A total of 33 Egyptian soldiers were killed. For more background on the Sinai insurgency, see CRS Report IN10199, *The Islamic State in Egypt: Implications for U.S.-Egyptian Relations*, by Jeremy M. Sharp.

Figure 3. Islamic State Sinai Province
Militants captured an M60 tank in October 2014.



Source: Jane's Defence Weekly

Many observers have questioned whether the Egyptian military is capable of effectively waging a counter-insurgency campaign in the Sinai. The military claims that it is gaining ground against militants by increasing the army's troop presence, closing smuggling tunnels, and engaging the local population. According to one Sinai Province militant, "about 1,000 of us have been killed and about 500 or 600 arrested.... There are far fewer weapons because tunnels have been destroyed. It is difficult to move weapons."²⁵ However, many observers express greater interest in whether Egypt offers Sinai residents economic and political support (such as investments in infrastructure, payments to tribes, and employment opportunities), than in the nature and intensity of military might Egypt demonstrates. As militants attempt to coopt or intimidate local tribesmen in the Sinai, most conventional analytical wisdom holds that the Egyptian military will need to both provide security and prosperity for the local population in order to counter their radicalization.

Foreign Relations

Israel and Hamas

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

Israel and Egypt share a common adversary in the Palestinian terrorist group Hamas, which Egypt accuses of aiding anti-government militants in the Sinai Peninsula. In the summer of 2014, during a 50-day conflict between Israel and Palestinian militants in Gaza (Israel code-named the conflict Operation Protective Edge), Egypt served as an intermediary between Hamas and Israel, though it was generally perceived as favoring Israel during repeated negotiations over a cease-fire. There was some U.S. concern that Egypt's animosity toward Islamists was actually weakening its influence as a mediator. During the conflict, Secretary of State John Kerry showed openness to having Turkey and Qatar play a mediating role during the conflict. U.S. officials may have perceived that those two

²⁵ "Special Report: How Cairo is taking the fight to Sinai Militants," *Reuters*, February 4, 2015.

countries had greater leverage with Hamas than did Egypt since they were politically and/or financially supporting Hamas.²⁶

Since it deposed President Morsi in July 2013, Egypt's military has attempted to more dramatically curb weapons smuggling to Gaza-based militants. It repeatedly claims to have destroyed tunnels, and in recent months it has taken the unprecedented step of largely dismantling the town of Rafah along the Egypt-Gaza border. Egypt hopes to create a "buffer zone," which it claims would dramatically curb underground weapons smuggling to Hamas. To date, Egypt has razed 2,000 homes near the border, though it plans to rebuild a "New Rafah" and relocate nearly thousands of people further away from Gaza. Egypt also controls the Rafah border crossing into Gaza, the only non-Israeli controlled entry way into the Strip, which it periodically closes due to the security situation.

Other areas of Israeli-Egyptian cooperation include:

- **Energy:** Egypt has been negotiating for the possible import of recently-discovered offshore Israeli natural gas. Such imports could begin as soon as 2017. Before 2011, Egypt had exported natural gas to Israel, but repeated sabotage of pipelines traversing the Sinai Peninsula halted exports.
- **Maintaining the 1979 Peace Treaty:** The 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. Both sides coordinate with the Multinational Force of Observers (MFO), which monitors force deployments.

Libya

Terrorist violence emanating from Libya and directed against Egyptian citizens living and working there has forced Egypt to militarily intervene in its neighbor's civil war. On February 15, Islamists allied with the Islamic State (IS) released a video in which 21 hostages, most of whom were Egyptian Coptic Christians, were beheaded on a beach near the central Libyan town of Sirte. The following morning, Egypt responded with air strikes against terrorist camps in Derna, another IS stronghold in eastern Libya. Local civilians decried the strikes as indiscriminate and posted images of dead children. The air strikes mark the first time that Egypt publicly acknowledged its intervention in Libya, although Libyans have accused Egypt and the Arab Gulf States of militarily supporting forces aligned with Qadhafi-era retired general Khalifah Haftar.²⁷ In August 2014, there was speculation that Emirati fighter jets using Egyptian bases had conducted air strikes in Libya against militia positions around Tripoli's international airport.

On February 17, President Sisi called on the United Nations Security Council to lift its arms embargo on the internationally-recognized government based in Tobruk (but not on the embargo against Libya Dawn, the coalition at war with the government in Tobruk that includes some Libyan Islamists). It is unclear how Western nations will respond to President Sisi's appeal. There is some concern that a unilateral Egyptian intervention, particularly using ground forces, may further

²⁶ Secretary of State Kerry also publicly acknowledged Egypt's role as a mediator, saying that "I want to commend the Egyptians for their role in hosting the negotiations in Cairo and for continuing to work to reach agreement on a cease-fire." Statement on Today's Cease-fire Agreement, State Department Press Releases and Documents, August, 26 2014.

²⁷ "No plan for Egyptian Military Action against Islamic State in Iraq, Syria," *Reuters*, October 20, 2014.

enflame the conflict. According to one retired Egyptian general, “The militants in Libya would see Egyptian armed forces as an occupying power, and would retaliate in some way.”²⁸ On February 20, bomb attacks struck Qubbah, a town close to Derna and the home of the speaker of the Tobruk-based House of Representatives, killing dozens of people.

The civil war in neighboring Libya has provided terrorist groups in Egypt with new sources of arms, training areas, and new recruits, while endangering hundreds of thousands of Egyptian citizens working in Libya and living along the two countries’ porous desert border. In July 2014, more than 20 Egyptian soldiers were killed in a terrorist attack emanating from Libya and weeks later, President Sisi called for “a serious approach to meet the reality of events on the ground in Libya.” President Sisi has called on the West to become more involved in Libya, saying that “We will need the same measures happening in Iraq and Syria to be taken in Libya.”²⁹

Russia

Russia and Egypt are attempting to substantially improve bilateral relations. Presidents Sisi and Putin have exchanged visits, and both sides have pledged to increased trade and military cooperation. In February 2015, Russian President Vladimir Putin visited Egypt and pledged to help it construct a nuclear power plant. President Sisi, in an interview with a Russian newspaper, remarked that “in recent months special value has been attached to the position adopted by President Putin, who supports Egypt in matters relating to the fight against terrorism and is aware of the real situation in our country.”³⁰

In September 2014, Russia announced that it had reached a preliminary \$3.5 billion arms sale with Egypt. There have been no additional details on this sale or who will be financing the deal.

U.S. Foreign Assistance to Egypt

Overview

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

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

²⁸ “Egypt calls for United Nations-backed Military Operation in Libya,” *Washington Post*, February 17, 2015.

²⁹ “Egypt's Sisi calls on West to support Libya to avoid new Syria, Iraq,” *Reuters*, November 20, 2014.

³⁰ “Russia's Putin in Cairo for talks with Egypt's Sisi,” *BBC News*, February 10, 2015.

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.³¹

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

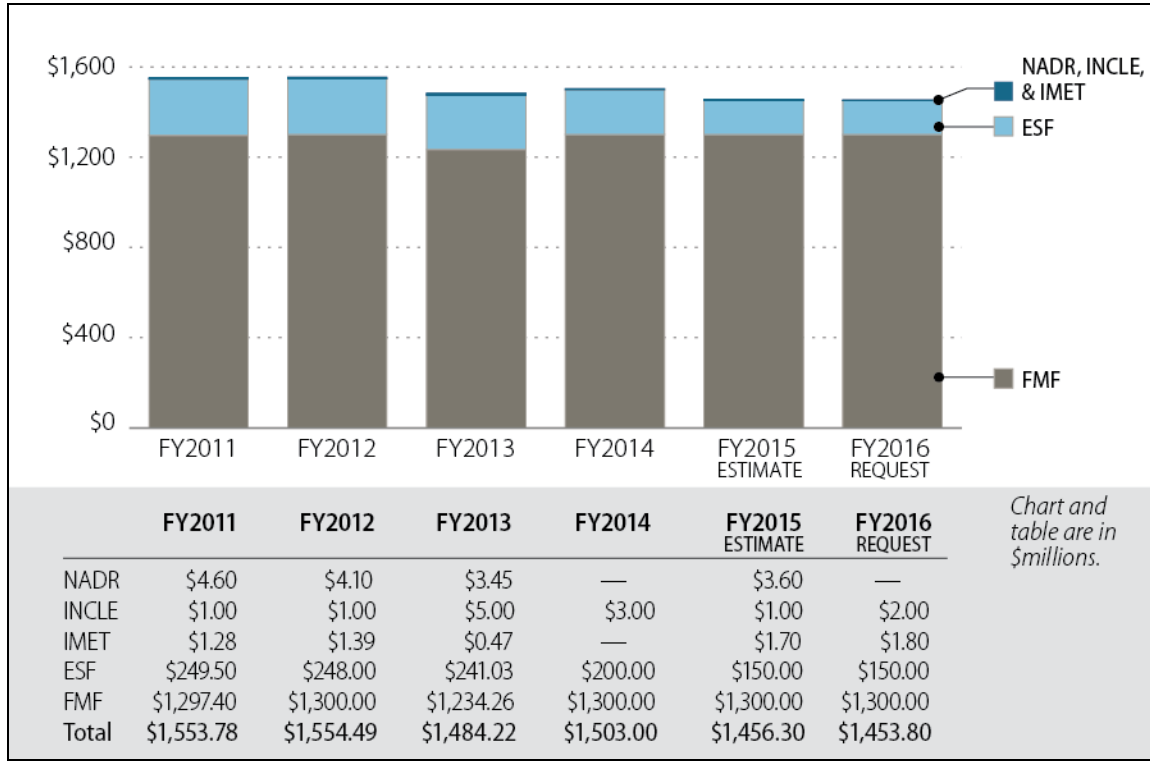
In some cases, an Administration may sign a bilateral “Memorandum of Understanding” (MOU) with a foreign country pledging a specific amount of foreign aid to be provided over a selected time period subject to the approval of Congress. In the Middle East, the United States has signed foreign assistance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

Congress typically specifies a precise allocation of most foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).³² The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term.

³¹ 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.

³² Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement. The Administration typically requests these funds, but they are not usually specifically earmarked for Egypt (or for most other countries) in legislation. After the passage of a foreign operations appropriations bill, federal agencies such as the State Department and the U.S. Agency for International Development (USAID) allocate funds to Egypt from these aid accounts. They then submit a country allocation report (653a Report) to Congress for review.

Figure 4. U.S. Assistance to Egypt, FY2011-FY2016 Request
 (Regular and Supplemental Appropriations; Current Year \$ in Millions)



Source: U.S. State Department.

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

Military Aid and Arms Sales

Overview

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

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

No. All U.S. military aid to Egypt finances the procurement of weapons systems and services from U.S. defense contractors.³³ 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 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 and Interest Bearing Account:** Between FY2001 and FY2011, Congress granted Egypt early disbursement of FMF funds (within 30 days of the enactment of appropriations legislation) to an interest-bearing account at the Federal Reserve Bank of New York.³⁴ Interest accrued from the rapid disbursement of aid has allowed Egypt to receive additional funding for the purchase of U.S.-origin equipment. In FY2012, Congress began to condition the obligation of FMF, requiring the Administration to certify certain conditions had been met before releasing FMF funds, thereby eliminating their automatic early disbursal. However,

³³ For the relevant legal authorities, see §604 of the Foreign Assistance Act as amended (22 U.S.C. 2354) and §503 of the Foreign Assistance Act as amended (22 U.S.C. 2311).

³⁴ By law, Egypt and Israel are permitted to earn interest on congressionally-appropriated Foreign Military Financing (FMF). During the late 1990s, the Clinton Administration (especially the U.S. Defense Department) and the Egyptian government sought to increase U.S. military aid to Egypt. One proposal had been to grant Egypt a benefit already enjoyed by Israel—the use of an interest-bearing account in which unspent FMF funds can accumulate interest to be used for future purchases. During Senate consideration of legislation to provide Egypt access to an interest-bearing account, Senator Mitch McConnell remarked that “In the State Department briefing justifying the request, U.S. officials urged our support because of Mubarak’s need to address the requirements of ‘his key constituents, the military.’ Frankly, I think Mr. Mubarak needs to worry less about satisfying the military and spend more time and effort shoring up democratic institutions and civic society.” See, Congressional Record-Senate, S5508, June 21, 2000. In October 2000, Congress passed P.L. 106-280, the Security Assistance Act of 2000, which authorized FY2001 FMF funds for Egypt to be disbursed to an interest-bearing account in the Federal Reserve Bank of New York. The law required that none of the interest accrued by such account should be obligated unless first notified to relevant congressional appropriations and oversight committees. In November 2000, Congress passed P.L. 106-429, the FY2001 Foreign Operations Appropriations Act, which included an interest-bearing account for Egypt in appropriations legislation. Since then, this provision has remained in annual appropriations legislation, most recently in P.L. 112-74, the Consolidated Appropriations Act, 2012.

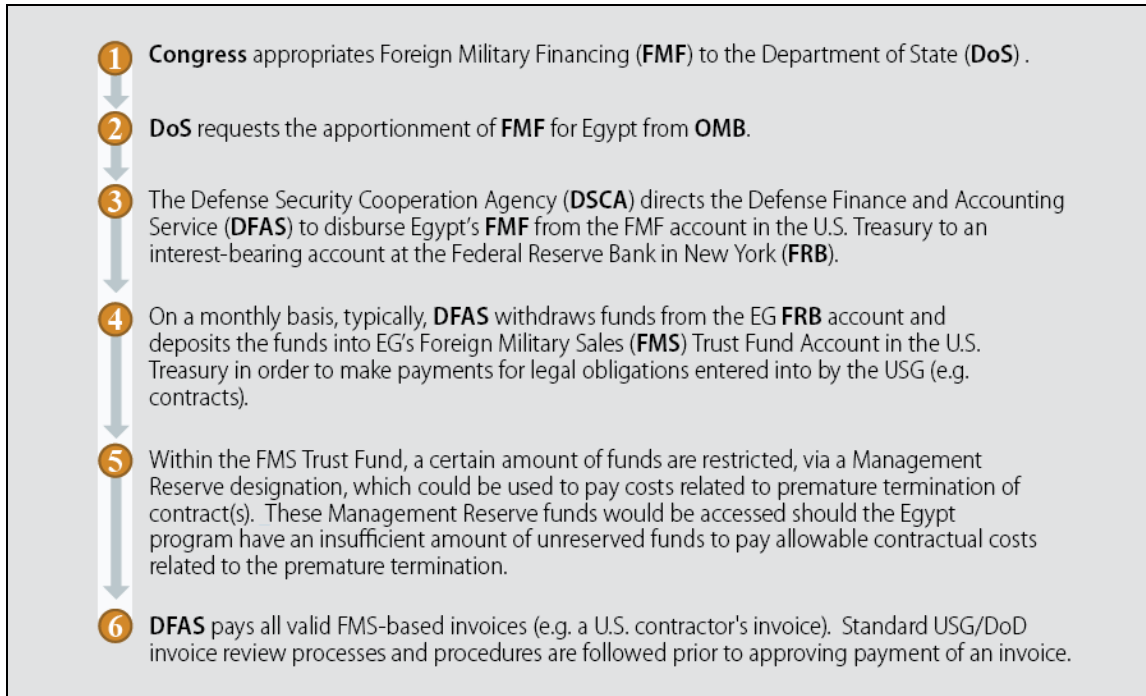
Congress has permitted Egypt to continue to earn interest on FMF funds already deposited in the Federal Reserve Bank of New York.

- **Cash Flow Financing:** Section 23 of the Arms Export Control Act (22 U.S.C. §2763³⁵) 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.³⁶ 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 Patrick Leahy, then chairman of the 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.”³⁷

³⁵ 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.

³⁶ 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.

³⁷ “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 another observer, “Although Washington could pay the contractors from existing funds in the Fed [FMF] account, assume the contracts, take possession of

the equipment, or even sell it to other countries via direct Foreign Military Sales, these options are not optimal.”³⁸

U.S.-Supplied Weapons Systems

FMF aid to Egypt is divided into three general categories: (1) acquisitions of new equipment, (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, DC, 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.³⁹ 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.”⁴⁰ According to the International Institute for Strategic Studies (IISS), in 2013 Egypt’s total defense budget was approximately \$5.28 billion.⁴¹ Based on this estimate, annual FMF grants to Egypt would account for about 24.5% 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.⁴² 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.⁴³ To date, 1,087 M1A1 tanks have been coproduced.

³⁸ David Schenker, “Inside the Complex World of U.S. Military Assistance to Egypt,” The Washington Institute, PolicyWatch 2130, September 4, 2013.

³⁹ 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.

⁴⁰ “US Military Aid to Egypt Lost Value,” *Jadaliyya.com*, July 25, 2013.

⁴¹ The International Institute for Strategic Studies, *The Military Balance 2014*, Routledge, February 2014.

⁴² 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.”

⁴³ 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

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 11th 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 45 AH-64D Block II Apache Longbow helicopters from Boeing 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. After 2011, DSCA has notified Congress of one Major Arms Sale to Egypt.⁴⁴

The following is a list of some recent Foreign Military Sales (FMS) contracts that include Egypt. Each entry lists the prime contractor and its location, the contracting number, and the equipment/service being purchased.

- Hellfire Systems LLC, Orlando, Florida, was awarded a \$144,044,911 modification (P00143) to foreign military sales contract W31P4Q-11-C-0242 (Saudi Arabia, Qatar, Jordan, Iraq, Egypt, Australia) to exercise option for FY 14 Hellfire II Missile production requirement consisting of 2,060 Hellfire II tactical missiles in containers, Air-to Ground (AGM) missiles model AGM-114R, AGM-114R-3, AGM-114P-4A, ATM-114Q-6 and AGM-114R-5. Fiscal 2014/2015 other procurement funds in the amount of \$144,044,911 were obligated at the time of the award. Estimated completion date is Nov. 30, 2016. Work will be performed Orlando, Florida. Army Contracting Command, Redstone Arsenal, Alabama, is the contracting activity.⁴⁵
- United Technologies Corp. doing business as Pratt & Whitney, East Hartford, Connecticut, has been awarded an estimated \$16,663,785 for the second option to previously awarded requirements for firm-fixed-price contract FA8121-10-D-0008. Contractor will provide remanufacture of FI00-PW-I 00/200/220/220E/229 engine modules. Work will be performed at Columbus, Georgia, and is expected to be complete by April 22, 2015. This contract is 100 percent foreign military sales for Chile, Egypt, Jordan, Thailand, Taiwan, Greece and Indonesia. This award is the result of a sole source acquisition and one offer was received. Air Force Space Command, Tinker Air Force Base, Oklahoma, is the contracting activity.⁴⁶
- BAE Systems Information and Electronic Systems Integration Inc., Nashua, New Hampshire, has been awarded a \$221,000,000 indefinite-delivery/indefinite-quantity contract for F-16 support equipment and related services. Work will be performed at Nashua, New Hampshire and Ft. Worth, Texas, and is expected to be complete by Feb. 4, 2020. This award is the result of a sole-source acquisition and is 100-percent foreign military sales to multiple countries including Morocco, Egypt, Oman,

(...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.

⁴⁴ This notification was for a \$69 million contract to DynCorp for personnel support services in support of 140 U.S. Government and contractor representatives in Egypt. See, <http://www.dsca.mil/major-arms-sales/egypt-personnel-support-services>

⁴⁵ Contracts for February 24, 2015, Department of Defense Documents.

⁴⁶ Contracts for February 13, 2015, Department of Defense Documents.

Pakistan, Indonesia and Portugal. Air Force Life Cycle Management Center, Hill Air Force Base, Utah, is the contracting activity (FA8232-15-D-0001).⁴⁷

Economic Aid

Overview

Although Egypt still receives economic assistance from the Economic Support Fund (ESF), the nature of U.S. support has changed significantly over the years. In the early to mid-1970s, as the United States sought to expand its relationship with Egypt, encourage peace with Israel, and promote a capitalist economy, U.S. loans and grant aid helped Egypt modernize its national infrastructure.⁴⁸ 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.⁴⁹

However, beginning in the mid to late 1990s, as Egypt moved from an impoverished country to a lower-middle income economy, the United States and Egypt began to rethink the assistance relationship, emphasizing "trade not aid." In 1994, then Vice President Al Gore and former Egyptian President Hosni Mubarak formed the U.S.-Egypt Partnership for Economic Growth, a bilateral forum designed ultimately to boost the Egyptian private sector and promote U.S.-Egyptian trade. The Egyptian government had hoped that high-level U.S. attention on bilateral economic issues would ultimately lead to a possible Free Trade Agreement (FTA) with the United States.⁵⁰ 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.⁵¹

⁴⁷ Contracts for February 9, 2015, Department of Defense Documents.

⁴⁸ 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.

⁴⁹ 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.

⁵⁰ 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.

⁵¹ 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.

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. From FY2010 to FY2013, Congress appropriated ESF to Egypt at the \$250 million Administration-requested level. In FY2014 and FY 2015, Congress provided up to \$200 million and \$150 million respectively in ESF to Egypt, of which not less than \$35 million was specified for higher education programs and scholarships.

The FY2016 Administration request seeks to maintain ESF at the \$150 million level. Presently, there is no bilateral agreement between the United States and Egypt on overall levels of economic assistance. U.S. economic aid to Egypt is divided into two components: (1) USAID-managed programs (public health, education,⁵⁴ economic development, democracy and governance); and (2)

U.S. Funding for Democracy Promotion

U.S. funding for democracy promotion activities and good governance has been a source of acrimony between the United States and Egypt for years. Though the two governments have held numerous consultations over the years regarding what Cairo might view as acceptable U.S.-funded activities in the democracy and governance sector, it appears that the sides have not reached consensus. Using the appropriations process, Congress has acted to ensure that “democracy and governance activities shall not be subject to the prior approval by the government of any foreign country.”⁵²

The FY2015 Consolidated Appropriations Act also contains several provisions on U.S. democracy assistance, including Section 7041(a)(C)(i) which mandates that the Secretary of State withhold an amount of ESF to Egypt determined to be equivalent to that expended by the United States Government for bail, and by nongovernmental organizations for legal and court fees, associated with democracy related trials in Egypt until the Secretary certifies that Egypt has dismissed the convictions issued by the Cairo Criminal Court on June 4, 2013,

In 2014, the Egyptian government mandated, per law 84 of 2002, that all civil society groups must register with the Ministry of Social Solidarity. Article 78 of the Egyptian penal code also was amended to mandate life imprisonment for anyone who receives funds from foreign entities in the context of counterterrorism; though democracy activists fear that this amendment will be used to silence dissent.⁵³

⁵² Originally referred to as the Brownback amendment, this legislative language began in reference to Egypt, but was expanded in FY2008 to include “any foreign country.” See, P.L. 110-161. This provision has been retained in Section 7032 of P.L. 113-235, the FY2015 Consolidated Appropriations Act.

⁵³ “Egyptian Activists fear new Penalties for Foreign Funding, *Al Monitor*, October 10, 2014.

⁵⁴ USAID’s Higher Education Initiative (HEI) has received the most programmatic ESF assistance from USAID for Egypt since 2011. According to USAID, the HEI provides funding for “scholarships to Egyptian women for Master of Business Administration degrees in the United States; 2) scholarships to Egyptian women for Bachelor’s degrees in the United States in the fields of science, technology, engineering and math; 3) Fulbright scholarships to disadvantaged youth for Master’s degrees in the United States, through a transfer to the Department of State’s Bureau of Educational and Cultural Affairs; 4) scholarships to Egyptian civil servants for Master’s degrees in the United States; and 5) scholarships to economically disadvantaged men and women to pursue Bachelor’s degrees at select, high-quality Egyptian public and private universities that provide instruction in English. The HEI will also fund partnerships between Egyptian and U.S. (continued...)

the U.S.-Egyptian Enterprise Fund. The \$150 million FY2016 request is the eighth-largest bilateral ESF request to Congress behind Afghanistan, Pakistan, West Bank/Gaza, Jordan, South Sudan, Ukraine, and Syrian opposition.

The Enterprise Fund

In late 2011, when Congress passed P.L. 112-74, the Consolidated Appropriations Act, 2012, it authorized the creation of an Enterprise fund for Egypt, Jordan, and Tunisia.⁵⁵ 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.⁵⁶ 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."⁵⁷

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 an informal hold on the initial \$60 million ESF obligation (it was eventually lifted). In 2013, after the military's ouster of Morsi, Senator Lindsey Graham placed a hold on the second obligation of \$60 million in ESF, with a spokesman for the Senator saying "Senator Graham has placed a hold on these funds and until he sees Egypt moving toward democracy, he will continue to restrict funding.... Additionally, he believes American taxpayers deserve a much clearer explanation of what exactly is President Obama's policy toward

(...continued)

universities." Implementing partners for the HEI are: World Learning, Inc., American University in Cairo (AUC), Institute of International Education (IIE), Bi-national Fulbright Commission. See Congressional Notification #101, May 2, 2014, USAID Country Narrative, Egypt.

⁵⁵ 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." Section 7034(r) of P.L. 113-235, the FY2015 Consolidated Appropriations Act authorized FY2015 ESF funds to operate the enterprise fund for Egypt (and Tunisia).

⁵⁶ 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>

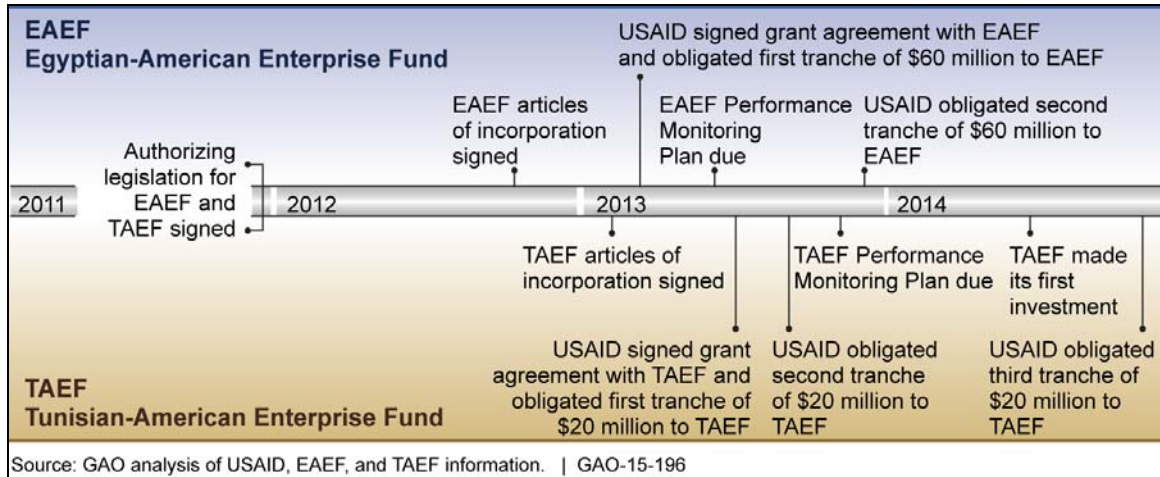
⁵⁷ David Ignatius, "An Egyptian Aid Package, Stuck in a D.C. Labyrinth," *Washington Post*, July 19, 2013.

Egypt.”⁵⁸ Senator Graham lifted his hold in early December 2013 just as a draft copy of Egypt’s amended constitution was made public in preparation for a national referendum on its adoption.

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

“The Egyptian-American Enterprise Fund (EAEF) has not yet made any investments in Egypt.... EAEF has not made any investments in Egypt as its initial investment did not proceed as planned. EAEF’s attempt to purchase a bank in Egypt that would lend money to small and medium-sized enterprises (SME) was rejected by the Egyptian Central Bank.”⁵⁹

Figure 6. The Egyptian-American Enterprise Fund



Source: Government Accountability Office, GAO-15-196

Egypt and the FY2015 Consolidated Appropriations Act

P.L. 113-235, the FY2015 Consolidated Appropriations Act, contains a number of provisions and conditions on U.S. assistance to Egypt similar to what Congress included in FY2014 (P.L. 113-76) with one significant exception: Section 7041(a)(6)(C) authorizes the Secretary of State to provide assistance to Egypt, *notwithstanding the certification requirements* specified both in the FY2015 Act⁶⁰ and in the FY2014 Act,⁶¹ if the Secretary determines that it is important to the national security interest of the United States to provide such assistance. As of February 2015, the Secretary of State has not made a determination.

⁵⁸ “U.S. Aid to Egypt Stuck in Limbo,” *CQ News*, October 28, 2013.

⁵⁹ Government Accountability Office, GAO-15-196, February 2015.

⁶⁰ These requirements are specified in Section 7041(a)(6)(A) and include, among other things, that the Secretary of State certify that Egypt has taken steps to advance the democratic process, protect free speech, protect the rights of women and religious minorities, and release American citizens who are determined to be political prisoners before specific sums (two tranches of \$725.85 million) of economic and military assistance are obligated.

⁶¹ The certifications requirements in the FY2014 Act, among other things, required that the Secretary of State certifies that Egypt has held a constitutional referendum, is taking steps to support a democratic transition, has held parliamentary and presidential elections, and is taking steps to govern democratically.

The FY2015 Act provides \$1.3 billion in FMF and \$150 million in ESF. Like the FY2014 Act, it requires, among other things, that:

- FY2015 funds may only be made available if the Secretary of State certifies that Egypt is sustaining the strategic relationship with the United States and is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.
- FY2015 funds are provided to Egypt “notwithstanding any other provision of law,” an exemption that would allow aid to continue despite Section 7008 of 113-235, which prohibits foreign assistance to a country whose elected head of government is deposed by military coup d'etat or decree.
- For FY2015, if the Secretary of State either cannot certify the conditions mentioned in the Act or if the Secretary chooses not use the national security waiver, then military aid may be made available at the minimum rate necessary to continue existing contracts, except that defense articles and services from such contracts shall not be delivered until the certification requirements are met.
- FY2015 funds may be made available without certification (and if the Secretary of State determines⁶² it is in the interest of U.S. national security) provided that they are used for counterterrorism, border security, nonproliferation programs in Egypt, and for development activities in the Sinai.

The FY2015 Act contains a new provision. It requires the Secretary of State to report on any defense articles withheld from delivery to Egypt. This report must include a detailed description of the conditions the Government of Egypt must meet to resume the delivery of such defense articles, and any actions by the Government of Egypt to meet such conditions. The report shall also include a description of the cost incurred for each category of defense article withheld, including the cost of storage and subsequent delivery of such articles. Another new reporting requirement in the FY2015 Act requires the Secretary to consult Congress on plans to restructure military assistance for Egypt, including cash flow financing.

Chronology: Recent U.S. Action on Foreign Assistance to Egypt

Date	Event
January 17, 2014	The President signs into law P.L. 113-76, the FY2014 Consolidated Appropriations Act. Under the law, Congress provides \$1.3 billion in FMF and \$250 million in ESF, though the full release of the funds is conditioned on certifications that first must be made by the Secretary of State.
March 4, 2014	The Administration releases its FY2015 Congressional Budget Justification, which seeks \$1.3 billion in FMF for Egypt, but only \$200 million in ESF, or \$50 million below the appropriation for the last six fiscal years.
April 22, 2014	The Obama Administration announces that it will resume delivering 10 Apache helicopters to Egypt of which it had suspended delivery in October 2013. In addition, the Administration certifies to the Appropriations Committees, as mandated in the FY2014 Appropriations Act, that Egypt is “sustaining the strategic relationship with the United States; and meeting its obligations under the 1979 Egypt-Israel Peace Treaty.” However, Secretary of State John Kerry, in a phone call to the Egyptian Foreign

⁶² Section 7041(a)(5) [Egypt: Security Exemptions] of the FY2015 Omnibus Appropriations Act differs from the previous year’s legislation in that funds may be provided only if “the Secretary of State certifies and reports to the appropriate congressional committees that to do so is important to the national security interest of the United States.”

	Minister, indicated that he is not yet able to certify that Egypt is taking steps to support a democratic transition, as required by P.L. 113-76, in order to release two separate tranches of military aid.
April 25, 2014	The State Department notifies Congress of its intent to obligate \$650 million in FY2014 FMF to Egypt under the authorities provided to it by Congress in Section 7041(a)(3) and (a)(5) of P.L. 113-76.
April 28, 2014	An Egyptian judge, who a month earlier had sentenced 529 men to death for killing a police offer, sentences another 683 men to death for a similar crime.
April 29, 2014	Senator Patrick Leahy stated that “I am extremely disturbed by the Egyptian Government’s flouting of human rights and appalling abuse of the justice system, which are fundamental to any democracy. I am not prepared to sign off on the delivery of additional aid for the Egyptian military until we have a better understanding of how the aid would be used, and we see convincing evidence that the government is committed to the rule of law.”
May 13, 2014	In report language accompanying H.R. 4435, the National Defense Authorization bill for FY2015, House Armed Services Committee Members note their support for the President’s decision to provide Apache aircraft to the Government of Egypt. According to the report, “The committee further believes that the United States should provide necessary security assistance to the Government of Egypt, specifically focused on areas of mutual security interest. The committee remains concerned that if the United States does not engage through security assistance with the Government of Egypt and the Egyptian military, then other countries, such as the Russian Federation, may fill this gap, which would work at cross-purposes with vital U.S. national security interests.... The committee is concerned by reports that there may have been human rights violations that have occurred in Egypt. The committee encourages the next President of Egypt to address the economic and political needs of the Egyptian people, including the protections for individual freedom and human rights reflected in the new Egyptian constitution.”
May 21, 2014	In an interview in Brussels, seemingly intended to allay some observers’ concerns, General Martin Dempsey, Chairman of the U.S. Joint Chiefs of Staff, remarks that he believes the Egyptian military would use U.S. weapons for their intended purpose and that the U.S. military has oversight mechanisms in place to ensure Egyptian compliance with U.S. law. According to General Dempsey, “If they were to use them for purposes that violated the end-use agreement, then we have the ability to interdict the supply chain and that system would not be much use to them any longer.” ⁶³
June 3, 2014	According to one press report, 10 Apache helicopters remain in storage six weeks after the Administration announced their release to the Egyptian government. ⁶⁴ According to one unnamed State Department official, “The aircraft are in storage at Fort Hood, Texas....We are making decisions with respect to our assistance to Egypt in consultation with Congress, and are working to determine when the Apaches would be shipped.”
December 16, 2014	Congress passed the FY2015 Consolidated Appropriations Act, which included up to \$1.45 billion in military and economic aid for Egypt.
December 20, 2014	Within days of the arrival of new U.S. Ambassador to Egypt Robert Stephen Beecroft, the Administration delivered the previously-suspended ten Apache helicopters to Egypt.

⁶³ “U.S.-Egypt Military ties will Depend on Egypt’s Actions -U.S. general,” *Reuters*, May 21, 2014.

⁶⁴ “Obama Administration holding up Apache Helicopters to Egypt,” *Al Monitor*, June 3, 2014.

Current Status of U.S. Aid

For FY2014, the Obama Administration has notified Congress of its intent to spend all \$1.3 billion in appropriated FY2014 FMF for Egypt. It has done so in two separate tranches of \$650 million each. The first \$650 million tranche was notified in April 2014. In January 2015, the State Department notified Congress of an obligation of another \$650 million in FMF.

For FY2015, as of February 20, no funds have been obligated, and the Administration has not exercised any waiver allowing it to provide aid to Egypt “notwithstanding” other conditions found in the law. Egypt still has several hundred million dollars in its account at the Federal Reserve Bank, which the Defense Department has used to make payments on outstanding cash flow-financed purchases for major procurements, such as F-16s, M1A1 tank kits, Harpoon missiles, Fast Missile Craft, and Apache helicopters.

How Valuable is U.S. Aid to Egypt?

Underlying the debate over U.S. assistance to Egypt is the question of how much leverage U.S. bilateral aid provides the U.S. government 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 annual appropriation, of which about \$1.3 billion is military aid, it compels Egypt to address items of stated U.S. interest.⁶⁵ A related point is that the dollar value of U.S. foreign assistance is less meaningful than the actual military partnership it helps foster. The Egyptian military, largely for reasons of regional prestige, values the symbolism associated with its relationship with the U.S. military.⁶⁶

Others posit that current U.S. aid gives the United States limited leverage.⁶⁷ In relative terms, when adjusting for inflation, \$1.3 billion in 2014 has the same buying power as \$620 million in 1987, meaning that annual FMF to Egypt, which has been unchanged since 1987, can purchase and sustain U.S. military equipment at less than half the value of what it could 28 years ago.⁶⁸ Moreover, it is unlikely that policymakers would consider asking Congress to match the recent financial support the Gulf Arab monarchies have provided to Egypt, a figure close to \$23 billion.⁶⁹ Other observers argue that when it comes to perceived existential threats such as Islamist terrorism, Egypt’s national security establishment is simply not willing to ease its crackdown against Islamist and secular opposition alike in exchange for improved U.S. relations.

Egypt seems to be searching for new international partners in order to both diversify its military-to-military relationships and signal its displeasure with recent U.S. policy. As previously mentioned, Russia has pledged to sign a \$3.5 billion arms deal with Egypt and expand trade in agricultural goods.⁷⁰ During a recent visit to Egypt, Russian President Vladimir Putin pledged to help Egypt construct a nuclear power plant and increase bilateral trade in Russian and Egyptian national currencies rather than the dollar. France also is negotiating with Egypt over a possible \$6.88 billion

⁶⁵ “Threat To Cut U.S. Aid Opens Rift With Egypt,” *The Jewish Daily Forward*, January 9, 2008.

⁶⁶ “How to Get Egypt’s Generals Back on Our Side,” *ForeignPolicy.com*, January 15, 2015.

⁶⁷ “America Has No Leverage in Egypt,” *New York Times*, August 19, 2013.

⁶⁸ Bureau of Labor Statistics, Consumer Price Index Inflation Calculator.

⁶⁹ “Egypt got \$23 bln in aid from Gulf in 18 months –Minister,” *Reuters*, March 2, 2015.

⁷⁰ Egypt is the second largest importer of Russian wheat, and Russia purchases Egyptian fruits and vegetables.

sale of 24 Rafale fighter jets⁷¹ and a naval frigate to Egypt.⁷² In 2014, France sold Egypt four other naval frigates in a deal worth \$1.35 billion. Some longtime supporters of the U.S.-Egyptian relationship may lament the possibility of diminished U.S. influence in Egypt while others may see a U.S.-Egyptian “rebalancing” as necessary and ultimately healthier for both governments.

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 among supporters of continued military aid to Egypt, there appear to be two basic objections to maintaining the status quo (i.e., military aid subsidizing Egyptian purchases of conventional weaponry like tanks and jet fighters). One is that it doesn’t line up with the current threats facing Egypt. The other is that it doesn’t help stabilize Egypt politically if it is seen as indirectly perpetuating the control of society by the military-guided state. 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:

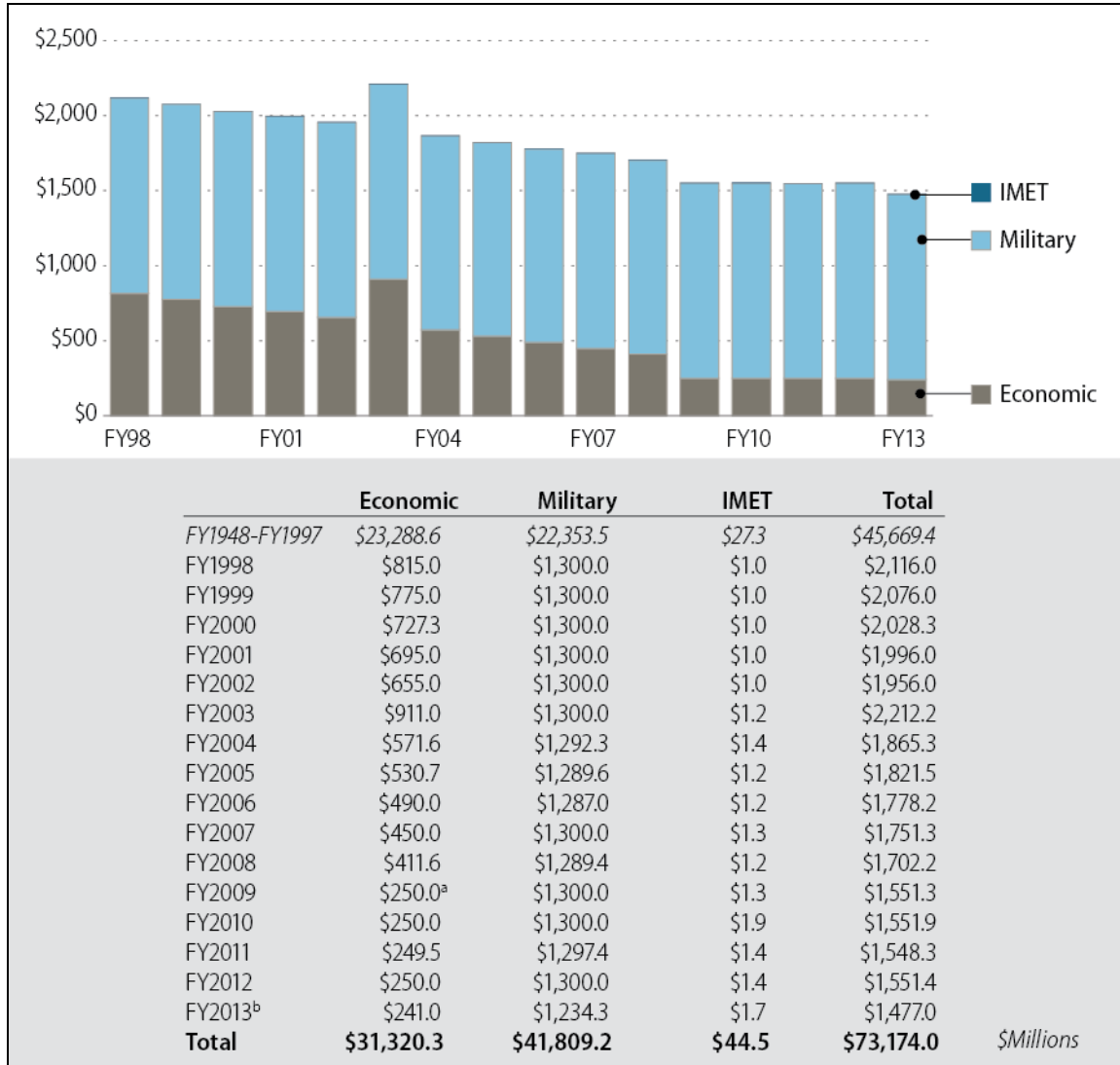
- Mandate Administration reporting requirement to Congress on an overall U.S. assistance strategy for Egypt, including possible bilateral agreements on future aid levels subject to the approval of Congress.
- Mandate Administration reporting requirement to Congress outlining how Egypt is supporting U.S. national security goals, such as countering terrorism and promoting regional peace.
- Authorize the Government Accountability Office 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).

⁷¹ The United Arab Emirates also has offered to provide Egypt an undisclosed number of French Mirage 2000-9s. Because French-supplied fighter aircraft are relatively expensive to buy, operate, and maintain, Egypt may need Gulf financing for larger French purchases currently under consideration. Egypt first purchased French Mirage fighters in 1981.

⁷² “France and Egypt negotiating Rafale fighter jet deal,” *Reuters*, February 5, 2015.

- 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.

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



Source: Created by CRS.

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

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

(\$ in millions)

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL. 480 I	PL. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWR A	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4

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
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	—
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

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

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

* = less than \$100,000

IMET = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

DA = Development Assistance

ESF = Economic Support Funds

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

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

Author Contact Information

Jeremy M. Sharp
Specialist in Middle Eastern Affairs
jsharp@crs.loc.gov, 7-8687