

Mediterranean/Middle East

SECOND MEETING OF THE
EU-EGYPT ASSOCIATION COUNCIL
(Luxembourg, 13 June 2006)

Statement by the European Union

1. The European Union warmly welcomes this second meeting of the EU-Egypt Association Council, which takes place two years after the entry into force of our **Association Agreement**. The EU regrets that the **European Neighbourhood Policy Action Plan** could not yet be agreed and hopes for a rapid conclusion of the negotiations in the coming weeks, as such an Action Plan would open a new chapter in the EU's relations with Egypt, and offer the prospect of enhanced co-operation in the political, economic and social spheres of our relationship.
2. Through the **European Neighbourhood Policy** the EU seeks to work with each partner individually, at the appropriate pace, to achieve a significant degree of economic integration as well as deepening of political cooperation and achieve the objectives of a privileged relationship based on mutual commitment to human rights, including the rights of women and rights of persons belonging to minorities, and to shared values, principally within the fields of the rule of law, good governance and democracy, and based also on shared commitment to combat terrorism and to promote non-proliferation of WMD, good neighbourly relations and the principles of market economy and sustainable development. The relationship will be shaped by the degree of commitment to these common values and principles, as well as mutual interest and the capacity of each party to implement jointly agreed priorities in the various fields. The pace of progress of the relationship will depend on the efforts and achievements made in meeting those commitments. The EU welcomes Egypt's readiness to commit to common shared values set out in an Action Plan, and to implement the measures the Plan will contain.
3. The **Action Plan** currently under negotiation will incorporate a comprehensive set of jointly agreed priorities and commitments over the next three to five years, backed by concrete actions, tailor-made to Egypt's specific needs, priorities and circumstances. The scope and path of our relations in the coming years will be shaped by the commitments we have undertaken together through this agreement under the European Neighbourhood Policy. The Action Plan will cover key areas for specific action to strengthen the EU-Egypt partnership on the basis of the Association Agreement. These areas will include political dialogue including human rights and democracy, regional and international issues, including the Middle East conflict, combating terrorism, arms control and weapons of mass destruction, economic reforms and trade measures to support Egypt's economic modernisation and reform programme and to prepare Egypt for gradually obtaining a stake in the EU's internal

market; issues related to justice and home affairs; energy, transport and information society, research and innovation, environment, social policy, health, culture, migration and education.

4. With a view to an early agreement on the joint EU-Egypt Action Plan, the EU has re-activated the procedures launched in 2005 (but suspended pending the conclusion of the Action Plan) for the creation of eight **sub-committees** and a working group which is to serve as the basis for overseeing, co-ordinating and implementing the Action Plan. The sub-committees, which are provided for in the Association Agreement, will serve as the engine for developing and strengthening dialogue between the EU and Egypt in areas of political and technical concern, and will assist the work of the Association Council and Association Committee.
5. The EU welcomes the planned inclusion of a **sub-committee on political matters: human rights and democracy, international and regional issues**. This sub-committee will also be the mechanism for a dialogue on concrete human rights issues. The sub-committees will cover the areas of political dialogue, human rights and regional issues, internal market, industry, trade and services and investment, transport, energy and environment, information society, research, audiovisual, education and culture, agriculture and fisheries, justice and security, and customs co-operation. In addition, a working group on migration, social and consular affairs is to be established. The EU looks forward to the early establishment of this institutional structure with a view to beginning a first round of meetings of the sub-committees in the second semester of 2006.
6. In the context of the institutional arrangements for developing dialogue and relations between the EU and Egypt, and in order to assess progress made on setting in motion the Action Plan and sub-committees, it is hoped that the **Association Committee** can be convened before the end of 2006. The Association Committee remains the highest level of contact between the EU and Egypt, at the level of senior officials, and will be charged with the task of following up the work of the Association Council.
7. In the framework of the European Neighbourhood Policy both sides will commit themselves to achieving closer political cooperation and dialogue on the basis of their common values and with a view to combining efforts to, in particular, furthering steps towards political and economic reform, promoting peace and stability in the Middle East, and combating common security threats. While the central focus on the **political dialogue** is retained in the context of the Association Council, the concrete actions which will be agreed in the framework of the European Neighbourhood Policy will aim at enhancing and diversifying the dialogue and cooperation as reflected in the commitments to be undertaken by each side in the Action Plan.
8. **Respect for human rights and fundamental freedoms, democracy, the rule of law, good governance and international law** constitutes an essential element of our Association Agreement. Respect for these shared values will also guide relations in the framework of the European Neighbourhood Policy. In the framework of the ENP Action Plan and the sub-committee on political matters: human rights and democracy, international and regional issues, once it is established, special attention will be given to the promotion and upholding of those values.

9. In this respect, the EU looks forward to an openness of the Egyptian Government to **dialogue on human rights and democracy** issues, in the same positive atmosphere demonstrated at the informal meeting with the European Commission in May 2004. The EU looks forward to developing this dialogue through the mechanism of the sub-committee to be created - inter alia - for this purpose. In the spirit of respect and co-operation, the EU will seek to identify with the Egyptian authorities areas where it may provide practical support for the furthering of Egypt's own reform measures in the area of human rights, individual rights, the judiciary, civil society and police procedure.
10. The EU welcomes the steps taken by the **National Council for Human Rights (NCHR)** to produce two annual reports on the human rights situation in Egypt. The reports demonstrate the Council's evident wish to address a range of issues in a positive and frank manner. The EU is mindful of the important role of an independent NCHR in developing an effective partnership with both the national authorities and with civil society in promoting the protection of human rights. The EU welcomes the work of the NCHR in defending human rights and in raising awareness on human rights norms in Egypt, and in bridging the gap in confidence between citizens and government structures. The Council has played a constructive role advising the authorities, and in addressing individual complaints.
11. The EU looks forward to supporting the work of the NCHR through the perspective of the European Neighbourhood Policy Action Plan, and in the context of the planned sub-committees on political dialogue and human rights. This would be on the basis of Egypt's national priorities and reforms, and through its focus on the judicial and political reform process, including human rights, through economic and social programmes, and cultural and people-to-people dialogue and actions. The EU looks forward to the finalisation of the **National Action Plan** on human rights, for which the NCHR has been tasked to prepare. The EU also looks forward to further steps towards political reform and democracy in Egypt.
12. The EU is also encouraged by positive measures taken in the areas of detention of suspects, easing of harsh penalties. However, there remains **cause for concern**. The EU recently noted its concerns over the harsh and disproportionate treatment of peaceful demonstrators in Cairo - protesting the ongoing disciplinary proceedings against two Egyptian judges for, inter alia, criticism relating to the conduct of the Egyptian Parliamentary elections of 2005 - and the manner of their detention and arrest. The EU considers that human rights and individual rights, such as freedom of expression and of association, and an independent judiciary are essential pillars to democracy.
13. The EU has also expressed its concern at the alleged use of torture. It notes and closely follows actions taken in the field of prevention and suppression of practices of torture and inhuman treatment, and in the fight on discriminations on all grounds. It calls on Egypt to take all necessary steps to end such practices.
14. The EU has expressed its concern at the handing down of death sentences on persons convicted of crimes. The death penalty violates the basic right to life for each individual.
15. The EU follows closely the decision to delay the abolition of the state of emergency. In this regard, the EU urges Egypt to hold to undertakings made in 2005 regarding the **ending of the state of emergency**, which is in force since 1981.
16. The EU calls on Egypt to promote tolerance in matters relating to culture, minorities, including religious minorities, and sexual orientation.

17. The EU is encouraged by the existence of an **active civil society** in Egypt representing a broad spectrum of views and interests, which is regarded as a significant feature in the development of a nation's economic, social and political infrastructure, and in the strengthening of national prosperity and regional stability. In this regard, the EU urges Egypt to continue to take steps to encourage a free and flourishing civil society, and to ensure freedom of association and expression.
18. The EU also considers the **promotion of the role and participation of women** in all spheres of society to be a key factor for the political, economic and social development of a country. Welcoming Egypt's efforts to improve the status of women and the child and to protect and promote women's rights, including their physical integrity, the EU is prepared to support further efforts by the Egyptian authorities to work to increase the participation and representation of women in all sectors and to strengthen women's rights.
19. Regarding the **Barcelona Process**, the EU appreciates Egypt's long-standing commitment as well as its valuable contributions to the Process. Partners are committed to implement the Five-Year Work Programme which was adopted during the Barcelona Summit on 27 and 28 November 2005 and which sets out medium-term targets for the political and security partnership; sustainable socio-economic growth and reform; education and socio-cultural exchanges; and migration, social integration, justice and security, as well as a Euro-Mediterranean Code of Conduct on Countering Terrorism and the Horizon 2020 initiative to clean up the Mediterranean by 2020. The Summit was an opportunity to revitalise the partnership, so that it delivers visible results on issues which matter to citizens in the EU and Mediterranean Partners. The Work Programme will be supported through the European Neighbourhood Policy which encompasses measures to develop the regional and national dimensions of the Barcelona Process, supported by the technical and financial assistance provided through the future European Neighbourhood and Partnership Instrument.
20. The EU warmly welcomes Egypt's decision to host the next **Conference of EuroMed Ministers of Environment** in November 2006.
21. The EU welcomes the establishment of the **Anna Lindh Euro-Mediterranean Foundation for the Dialogue of Cultures** in Alexandria, with the collaboration and logistical support of the Alexandria Library and the Swedish Institute. In the light of the sad events surrounding the cartoons publication and its violent aftermath, the goals set by Euro-Med partners for the Anna Lindh Foundation are even more relevant and immediate today. The EU is anxious that the Foundation should serve as a forum for frank and open discussions, open to all parties across the region, both civil society and national authorities, and youth in particular. The credibility of the inter-cultural and inter-faith dialogue to be nurtured by the Foundation will depend on the extent to which civil society is active in the work of the Foundation, and on the extent to which all those involved in its deliberations have freedom of movement and of expression of artistic and intellectual ideas. The EU welcomes the appointment of the Board of Governors, and of the Director and his staff, and looks forward to seeing the Anna Lindh Foundation rising to the pressing challenge of facilitating contacts and dialogue, tolerance and understanding, between the region's cultures and civilisations.
22. The EU appreciates Egypt's ongoing efforts to broker peace negotiations between Israel and the Palestinians as well as organising talks between the Palestinian factions. The EU remains firmly committed to the clear objective of two States, Israel and a viable, sovereign, contiguous and democratic Palestinian State, living side by side in peace and security, in the framework of a comprehensive peace in the **Middle East**, as laid out in the Road Map,

negotiated between the parties.

23. The EU has welcomed the holding on 25 January of elections to the Palestinian Legislative Council and congratulated President Abbas and the Palestinian people on an electoral process that was free and fair. Since then, the EU has consistently demanded that the new Palestinian government meet and implement the three Quartet principles of non-violence, recognition of Israel's right to exist and acceptance of existing agreements and obligations, including the Road Map. The EU equally has continued to call on the Palestinian side to fulfil its obligations as stipulated in the Roadmap, especially the unequivocal end to violence and terrorism and the dismantling of terrorist infrastructure.
24. The EU has welcomed Israel's disengagement from Gaza and parts of the West Bank in 2005 as a step towards full implementation of the Road Map. The EU fully supported the work of James Wolfensohn, the Quartet Special Envoy for Disengagement and commended his services at the end of his tenure. The EU has welcomed the Agreement on Movement and Access between the Government of Israel and the Palestinian Authority. The re-opening, with Egypt's very valuable support, of the Rafah crossing point in November last year remains a significant step in facilitating the movement of persons between Gaza and Egypt. On the basis of the Agreement and the detailed planning undertaken by the EU with the parties, the EU has agreed to undertake the Third Party role proposed in the Agreement. Since 25 November 2005, the 75-strong ESDP mission "EUBAM Rafah" successfully monitors the operations of the Rafah border crossing point in accordance with agreed procedures, thus contributing also to confidence building between the parties. The EU stresses the importance of full implementation of the other elements contained in the Agreement on Movement and Access, for example the development of a plan to reduce obstacles to movement in the West Bank, the facilitation of movement between the West Bank and Gaza and the export of goods via the Rafah Crossing Point. The EU has urged both parties to take concrete steps to implement their obligations in that regard.
25. The EU is seriously concerned about the deterioration of the humanitarian, economic and financial situation in the West Bank and Gaza. It has welcomed the willingness of the Quartet to endorse a Temporary International Mechanism (TIM) for direct delivery and supervision of assistance to the Palestinian people. The EU is working urgently to develop such a mechanism which as a matter of priority will be aimed at contributing to meet basic needs including health services. It has consulted International Financial Institutions and other key partners and has invited donors to join in the effort. The EU has called on Israel to resume without delay transfers of withheld Palestinian tax and customs revenues which are essential in averting a crisis in the Palestinian territories.
26. The EU welcomed the recent meeting between President Abbas and Foreign Minister Livni and looks forward to a meeting between Prime Minister Olmert and President Abbas in view of the urgent need to re-launch the process towards a negotiated settlement of the Israeli-Palestinian conflict. The EU reiterates the importance of both parties avoiding unilateral measures which prejudice final status issues. The EU will not recognise any changes to the pre-1967 borders other than those arrived at by agreement between the parties.

27. The EU has called on the Israeli government to cease all activities in the Palestinian territories, including settlement building and expansion, the construction of the separation barrier on Palestinian lands as well as the demolition of Palestinian homes, which are contrary to international law and threaten to make any solution based on the co-existence of two states physically impossible. The EU is particularly worried about the situation in and around East Jerusalem and in the Jordan valley. It is concerned about Israeli military operations that result in civilian casualties.
28. The EU encourages initiatives from civil society on both sides in support of the peace process and stands ready to further assist efforts that could promote rapprochement and strengthen mutual understanding, in the search for a lasting peace.
29. The EU recalls that a comprehensive peace in the Middle East should also include a lasting settlement for the conflicts between Israel, Syria and Lebanon.
30. The EU will spare no effort to promote peace and security in the Middle East, both in the short-term and in the longer-term, within the broader political perspective. It is determined to co-ordinate its efforts with the parties involved and with its partners, in particular the Quartet members. The full political commitment of the Quartet remains crucial.
31. The European Union welcomes the formation of an **Iraqi** government of national unity following the elections on 15 December 2005. The EU firmly believes that this inclusive government will contribute significantly to the political and economic reconstruction of Iraq in a spirit of reconciliation.
32. The EU is ready to engage actively with the new government in order to assist in building an independent, secure, stable, unified, democratic and prosperous Iraq. In this context the EU wishes to underline its support for a process of national reconciliation, including efforts by the UN in this area and the initiative by the League of Arab States to hold an Iraq National Accord Conference in Baghdad on 21 June 2006.
33. The EU shares the determination of the international community to prevent the proliferation of WMD and their means of delivery in the Middle East. Regarding the **Iranian** Nuclear programme, the EU remains committed to finding a diplomatic solution. The EU deeply regrets the failure of the Iranian authorities to take the steps deemed essential by the IAEA Board of Governors and the UNSC. It has called on Iran to cooperate fully with the IAEA to suspend all uranium enrichment-related and reprocessing activities, including for R&D, and to suspend the construction of a reactor moderated by heavy water in order to create the conditions in which negotiations might resume. The EU fully supports the Security Council making this mandatory
34. The EU is deeply concerned at Iran's approach to the Middle East Peace Process, including its opposition to a solution based on two states, Israel and Palestine, existing side by side in peace and security. The EU is also deeply concerned at Iran's support for groups undermining peace in the Middle East through violence. The EU condemns in the strongest terms the comments of President Ahmedinejad calling for Israel to be 'wiped from the map'.
35. As regards **Sudan**, EU welcomes the signing of the Darfur Peace Agreement (DPA) by the government of Sudan and the SLM/A in Abuja on 15 May, signed by one SLM leader, Minni Minnawi. It expresses its sincere appreciation to the African Union (AU), its Member States and the Facilitators and Observers for their efforts during the negotiation process. The

EU believes that the DPA should pave the way for the rapid improvement of the humanitarian and security situation in Darfur, including the protection of the civilian population and the unhindered delivery of humanitarian assistance, and the restoration of lasting peace and reconciliation, in Darfur and the region. The EU has urged the other rebel movements to immediately and unconditionally sign the Darfur peace agreement and reiterates its support for the application of sanctions under UNSCR 1591 against those who impede the peace process.

36. The EU calls on all parties to work for the swift and complete implementation of the DPA and to respect scrupulously the ceasefire. In particular, it demands an immediate end to all attacks on civilians and all violations of human rights. The EU emphasises the need to respect the unhindered deliverance of humanitarian assistance and calls on all parties to immediately remove any existing obstacles to the delivery of aid and to end any obstruction of humanitarian work, contributing to a climate allowing for the voluntary return of IDPs and refugees. The EU states its readiness to support the implementation of the peace agreement and to contribute to the reconstruction of Darfur and the reconciliation of its people.
37. The EU pays tribute to the AU mission in Darfur (AMIS) for its efforts to bring stability and security to Darfur in exceptionally difficult circumstances. It stresses its continuing critical role in the coming months in relation to the implementation and verification of the DPA and the need to strengthen AMIS in light of the additional tasks it will have to accomplish, including through continuing efforts to enhance the operational capabilities of AMIS. The EU stands ready to continue providing, together with other international partners, a wide range of support to the military and police components of AMIS, including planning, technical, financial and equipment support.
38. The EU reaffirms its support for a transition from AMIS to a UN mission in Darfur as the best option for providing sustained and long-term security and stability in Darfur, and in this respect welcomes the communiqué of the AU Peace and Security Council from 15 May deciding that in view of the DPA, concrete steps should be taken to effect the transition. The EU urges all stakeholders, in particular the Sudanese government, to cooperate with UN in order to proceed swiftly with the planning for a successful transition.
39. The EU believes that lasting peace in Darfur can only be achieved within the framework of a peaceful Sudan and reaffirms its commitment to support the continuing implementation of the comprehensive peace agreement (CPA) as the only way to a peaceful, democratic and prosperous Sudan. It urges the parties to the CPA agreement to remain committed to its full implementation and to cooperate in a spirit of partnership and transparency. In particular, the EU welcomes the ongoing efforts to overcome tensions in Eastern Sudan and calls on all parties to expedite the process aimed at resolving existing problems.
40. With respect to **migration**, the EU wants to create a space of peace, prosperity and progress with the Southern Mediterranean partners, including Egypt. The EU emphasises that the approach to migration needs to be comprehensive and to incorporate in a balanced manner relevant factors such as external relations, development policy, economic assistance and co-operation in the area of justice and home affairs. The EU highlights the progress made in the field of **migration** on subjects such as family reunification, the status of third-country nationals who are long term residents, the admission of students and of third-country national researchers. The EU also attaches specific importance to promoting better integration of immigrants legally present on the territory of its Member States. The progress in that field should also be accompanied by joint efforts and concrete measures against

illegal migration, i.e. the mutual recognition of expulsion decisions, the assistance in case of transit for the purpose of removal by air and in the field of combating the trafficking of human beings to which the EU is giving increased attention. The conclusion of readmission agreements, as stated in article 69 of the Association agreement, is considered as an important step in this context. The establishment of a regular dialogue on migration and social issues, for which the Association Agreement establishes the framework, would be an important and concrete step in reinforcing policy co-ordination, co-operation and the exchange of information and good practice in these areas. The EU shares with Egypt the view that co-operation on issues in the Justice and Home Affairs field is becoming ever more necessary and it looks forward to the implementation of a joint European Neighbourhood Policy Action Plan which would *inter alia* address such matters.

41. A useful complement to the dialogue on migration between the EU and Egypt will be the dialogue at regional level under the Barcelona Process, especially through the implementation of the Chapter "Migration, Social Integration, Justice and Security" of the Five Year Work Programme adopted at the 10th Anniversary Euro-Mediterranean Summit in Barcelona last year. In its conclusions of 15 December 2005, the European Council called for an enhanced dialogue with Africa, in particular regarding the links between migration and development, and better knowledge of migratory routes, frequently linked to the trafficking in human beings. The EU hopes that Egypt will play an active part in the Euro-African Ministerial Conference on migration and development to be held in Rabat in July, and in other Ministerial Conferences that will be dealing with migration and related issues, including the AU-EU Conference.
42. The European Union rejects **terrorism** in all its forms and manifestations, irrespective of the motives of its perpetrators. Terrorist violence is unjustifiable in any place or under any circumstances. Both Egypt and the EU have been confronted with barbaric acts of terrorism in recent years. The EU unreservedly condemns the recent terrorist attacks in the Sinai desert and expresses its solidarity with the victims of these attacks and with the Egyptian people as a whole. The EU has also strongly condemned the attack in Tel Aviv in April.
43. The EU supports the key role of the United Nations and will continue to work to ensure universal adherence to all UN Security Council Resolutions, UN Conventions and Protocols relating to terrorism. The Union urges all countries to ratify and fully implement the relevant UN instruments as soon as possible and stands ready to help if needed. The EU would like to commend Egypt for its recent accession to the International Convention for the Suppression of Terrorist Bombings (1997) and the International Convention for the Suppression of the Financing of Terrorism (1999). The EU encourages Egypt to lift its reservations under some of the conventions to which it is party. The EU hopes that an agreement on a Comprehensive Convention against International Terrorism can be reached soon in order to achieve the objective agreed by our Heads of State and Government at the UN Summit in New York last September. The Union believes that Egypt can play an important role in bringing about such agreement.
44. The global threat of terrorism requires an international response. Therefore, the EU hopes that a comprehensive UN strategy against international terrorism can be agreed soon. The ideas of the UN Secretary General, as outlined in his speech in Madrid on 10 March 2005, constitute an excellent basis for such a strategy.
45. The fight against terrorism is being incorporated into all aspects of EU external action. In its relations with all partners, the European Union stresses the commitment to combating terrorism must be carried out in full respect for international law, including international

humanitarian law, human rights, fundamental freedoms and the rule of law.

46. The European Union is pleased with the Code of Conduct on Counter-Terrorism adopted at the Euro-Mediterranean Summit in Barcelona (27-28 November 2005). The EU looks forward to further discussions with Egypt on the implementation of the Code of Conduct
47. The EU is deeply concerned about the ongoing **proliferation of weapons of mass destruction** and their means of delivery, considering it to be one of the most serious threats to international peace and security. In this regard, the EU welcomes the adoption of UN Security Council resolution 1673 which renews the mandate of the UNSC 1540 Committee in order to contribute to the full implementation of the latter resolution.
48. The EU will continue to use all political and diplomatic instruments at its disposal and act to stem the proliferation of WMD and their means of delivery by both State and non-State actors. In this context, the EU will also continue its support for the Proliferation Security Initiative. At the same time the EU underlines the importance of full compliance with and national implementation of existing disarmament and non-proliferation treaties and agreements and other relevant international obligations.
49. The EU attaches great importance to the universalisation of international instruments against the proliferation of WMD and their means of delivery through signature, accession or ratification, as appropriate, of all relevant instruments. The EU calls upon all States which have not yet done so to accede to the NPT, the CTBT, the IAEA additional Protocol, the CWC and the BTWC and is looking forward to a successful BTWC Review Conference in November/December 2006.
50. The EU calls on all countries to establish effective systems of national export controls, controlling export and transit of WMD-related goods. The EU has also decided to mainstream co-operation on non-proliferation into its wider relations with third countries. The European Union therefore welcomed that the Union and Egypt, on the basis of the European Neighbourhood Policy Action Plan, once it is adopted, will develop dialogue and co-operation on the fight against proliferation of WMD.
51. The EU continues to regard the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) as the cornerstone of the global non-proliferation regime and the essential foundation for the pursuit of nuclear disarmament under article VI. The EU will continue to work for a strengthened NPT, inter alia through promoting its universalisation and stricter compliance by all States Parties with their obligations.
52. The EU welcomes the agreement by Euromed Ministers on the principle of holding an ad-hoc meeting on regional security, non-proliferation of WMD and disarmament within the Barcelona framework. The EU will continue consultations with a view to seeking final agreement on the terms of reference and date for this meeting.
53. The EU reiterates its commitment to the objective of pursuing a mutually and effectively verifiable Middle East zone free of weapons of mass destruction, nuclear, biological and chemical, and their delivery systems, as set out in the Barcelona Declaration of 1995.
54. The EU commends Egypt for achieving impressive **economic reforms**, greater monetary stability, and economic growth. The EU notes that economic growth in Egypt accelerated from 4.2% in fiscal year 2003-04 (FY04) to 5.1% in FY05. Growth benefited from a strong performance of merchandise exports and tourism, and was backed by increasing confidence

thanks to vigorous reforms. The EU welcomes Egypt's efforts to achieve a sustainable socio-economic development. It is of particular importance to maintain a stable macroeconomic framework by containing inflationary pressures and reversing the deterioration of the fiscal position, inter alia by controlling off-budget outlays. Egypt needs to implement a consolidation strategy to tackle its relatively high budget deficit and public debt. The general public deficit widened to 7.1% of GDP in FY05 (6.6% in FY04) due to tax and tariff cuts, rising energy subsidies and public wages.

55. The commendable efforts made in the area of structural reforms ought to be sustained and further intensified with a view to maintaining high and sustainable economic growth, capable of raising living standards and generating employment for Egypt's growing labour force. The effective implementation of the Association Agreement plays an important role in the reform process and the EU attaches a high priority to help Egypt meeting its commitments on economic, regulatory and legislative reforms. The Action Plan will be an important catalyst in this process of further necessary reforms, particularly to foster the private sector, in order to reap maximum benefits from the Euro-Mediterranean free trade area.
56. The first **Economic Dialogue** between the European Commission and Egypt took place in January 2004 in Cairo. It provided a useful forum to exchange views on economic developments and policies in Egypt and the EU, including in particular macroeconomic developments, financial reforms and capital movement issues. The next dialogue could follow up on the adoption of the Action Plan and focus on strengthening the growth potential of the private sector by improving the business and investment climate and restructuring and liberalising the financial sector.
57. **Trade relations between the EU and Egypt** remain healthy, currently enjoying an increasing trend. With an average €10 billions of EU-Egypt bilateral trade since 2000, the entry into force of the Association Agreement in 2004 marked an increase in bilateral trade, which scored a record €13.3 billions in 2005, keeping a sustained upward trend in 2006. The enlarged EU represents nearly 40% of Egypt's total trade with the world and is Egypt's first trading partner. Nearly 50% of EU exports to Egypt are accounted for by machinery and transport equipment, most of the rest being chemicals and manufactured goods. More than 40% of EU imports from Egypt consist of fuels, while significant shares are accounted for by manufactured goods, food and chemicals.
58. **EU-Egypt preferential trade relations** are governed by the Association Agreement, now in its third year of implementation. While Egyptian industrial exports have for some time enjoyed free access to the EU market, half of EU industrial exports to Egypt will be fully liberalised in 2007 under the tariff dismantling provisions. Bilateral preferences in agriculture have significantly boosted market access, including for Egyptian produce. EU exports of processed agricultural products are starting to enjoy partial preferences from the beginning of 2006. The Agreement, geared towards the establishment of a bilateral Free Trade Area - part of a wider Free Trade Area at regional scale - after a transitional period, contains, inter alia, provisions on customs cooperation and rules of origin, competition, protection of intellectual property rights and on services liberalisation.

59. **Further bilateral trade liberalisation** will build upon progress achieved in the context of the Euromed process. With a view to achieving the trade-related objectives of the Barcelona Process, regional working groups have started work on the approximation of standards and technical regulations, trade facilitation, rules of origin and liberalisation of trade in services, with significant progress having been made over the last years. The 5th **Euromed Trade Ministerial Conference held in Marrakech** on 24 March 2006 confirmed the commitment of all parties to pursue work on trade liberalisation towards the establishment of a regional Free Trade Area at the horizon of 2010. This includes the launch, at the Marrakech Ministerial, of a set of new initiatives, such as negotiations on services and investment liberalisation, on the establishment of a new mechanism for the settlement of bilateral trade disputes, and continuation of approximation efforts on product legislation and standards with a view to prospective negotiation of conformity assessment agreements. Egypt fully supported such initiatives and accepted to open negotiations in the above areas.
60. **Liberalisation of trade in services** to achieve a fully-fledged Free Trade Area is an objective of both the Euromed process and EU-Egypt economic relations. Services, which represent 50% of Egypt's GDP, are instrumental to strengthen economic activity, to attract investment and to enhance the dynamics of the economy. The objective to pursue services liberalisation in the Euromed, confirmed at the Marrakech Trade Ministerial, will materialise into a first round of collective negotiations in July with negotiating partners, and Egypt in particular. Such negotiations will equally concern the right of establishment for all companies from both sides, a liberalisation endeavour that is key to attracting investments and to fostering the integration of the respective economies.
61. Following regional work on rules of origin to extend the **Pan-European system of cumulation** to the Mediterranean countries, the EU Council adopted the new Protocol of origin at the end of 2005 and requested Mediterranean partners to adopt it accordingly. Egypt has swiftly done so and the Protocol is in application bilaterally since March. The cumulation system will gradually extend to all Pan Euro Med partners which will have concluded Free Trade Agreements among themselves and adopted the new Protocol. The conclusion of such Free Trade Agreements among Med partners is highly encouraged to enable both cumulation and, more generally, the progressive establishment of a regional Free Trade Area. Egypt has significantly contributed to this endeavour by signing agreements, soon to be implemented, with the Agadir partners and with Turkey. Egypt is encouraged to pursue such **South-South liberalisation** efforts with other partners.
62. **On the WTO multilateral negotiations**, the EU and Egypt are doubling efforts to achieve an ambitious and balanced outcome of the Doha Development Agenda (DDA). They share the view that, in agriculture, the outcome should ensure additional market access in products and markets of interest to developing countries and in a manner consistent with our bilateral preferential arrangements. An ambitious reduction of trade distorting domestic subsidies in agriculture and the elimination of all forms of export support are an essential part of the single undertaking. In Non-agricultural Market Access (NAMA), real new market access is needed and in particular to open up access for Med countries to the markets of advanced developing countries, as well as to those of developed countries. The EU and Egypt will strive for parallel and satisfactory progress in the rules and services areas of the negotiation, including geographical indications and trade facilitation, in a manner consistent with each other's ability to contribute to the Round. Egypt, as a leading partner in the developing world, is expected to constructively contribute to the success of the DDA by pursuing the multilateral dimension of its partnership with the EU.

63. **Agriculture** (including processed agricultural products and fishery products) represents an important element of the total bilateral trade between EU and Egypt, accounting for 10% of total EU imports (€394 million - 2003-2005 average) and 8% of EU exports (€609 million). The EU welcomes the prospect of negotiations on the liberalisation of trade in agricultural, processed agricultural and fishery products before the summer. Non-trade aspects, namely in the field of sustainable rural development and geographical indications, should also be part of the discussions.
64. On **phytosanitary questions**, the EU remains very concerned about the risk of introduction of brown rot into the Community through the importation of Egyptian potatoes. Although the situation represents a marked improvement during the current import season, compared to the last import season, still a number of interceptions of potato brown rot were recorded by the EU. The EU regrets that the measures taken by Egypt have again not been sufficient and expresses its availability to discuss any specific elements of this issue which could contribute to improving the level of security in respect of a possible future export regime of potatoes to the Community.
65. Regarding **transport**, and in particular maritime transport services, the EU encourages Egypt to give full application to the principle of free circulation of shipping in international trade in free and fair competition. The EU also encourages Egypt to initiate negotiation for a horizontal aviation agreement with the EC and to take part in regional cooperation on safety, security and air traffic management and to continue the participation in the development of the Global Navigation Satellite System (Galileo) in the Mediterranean region, in particular by giving an active role to the Galileo Euromed Cooperation Office based in Cairo.
66. With respect to the **energy sector**, the EU recognises the important potential of Egypt for the enhancement of security of natural gas supplies to the EU. In this respect, EU welcomes Egypt's participation in the Mashraq regional gas project and the recent progress in the development of the Trans-Mashraq gas pipeline. EU also encourages Egypt to also explore the possibilities for regional cooperation in the electricity field. The EU underlines the importance of Egypt formulating a long-term energy strategy which recognises the need to proceed with legal and regulatory reforms in electricity and gas markets, improving overall energy efficiency and promoting renewable energy sources.
67. The **environment** area provides many opportunities for co-operation, both at the national and regional levels. At the regional level, co-operation can be reinforced in the context of the implementation of five year plan of the Barcelona Process and Horizon 2020. The timetable requested by the Barcelona Summit of November 2005 for the implementation of Horizon 2020 will be approved by the Euro-Med Environment Ministers' meeting scheduled for 20 November 2006 in Cairo.
68. The EU underlines the need to undertake policies and actions at the highest levels of government policy development, so that progress can be made toward the **sustainable development** of the country in sectors such as energy, transport, agriculture, water resources management and tourism. The implementation of the Athens Declaration of the Euro-Mediterranean Conference of Environment of July 2002 and of the Valencia Action Plan of April 2002 will be instrumental in this respect. The ENP Action Plan foresees actions to this effect.
69. The Scientific and Technological Co-operation Agreement was signed between the EU and Egypt on 21 June 2005. The first meeting of the EC-Egypt Joint Scientific and Technological Cooperation Committee for the implementation of the agreement will take

place on 21 June 2006 in Brussels. The Joint Committee will identify potential sectors and research priorities for future cooperation within the agreement. The conclusions and recommendations of the Joint Committee will be notified to the Association Committee. The EU also welcomes on-going work to promote co-operation in research, development and innovation. The EU encourages both parties to strengthen their dialogue on Science and Technology and Innovation on the basis of these developments.

70. The EU welcomes the **UNESCO Convention on the protection and the promotion of the diversity of cultural expressions** which was adopted on 20 October 2005. It is an illustration of a consensus never reached until now by the international community around a series of guidelines and principles related to cultural diversity. It is now necessary to promote the ratification of the Convention by a number and a diversity of countries reflecting the level of consensus achieved, in order to have a rapid implementation of the Convention. The EU encourages Egypt to confirm its support for the ratification and implementation of UNESCO Convention, and to identify common efforts needed to achieve this goal.
71. In the framework of **financial co-operation**, the European Commission will continue its co-operation with Egypt on the basis of the National Indicative Programme 2005-2006, for which an indicative amount of €243 million has been allocated to cover the priority areas of supporting the Association Agreement and European Neighbourhood Policy, reform in the water sector, encouraging the development of the knowledge society (research and innovation, Tempus programme), supporting the social and health sectors, good governance, human rights and democratisation.
72. Following conclusion of the Action Plan, the EU will complete procedures launched by the Commission for the publication of the **Country Strategy Paper** for Egypt, covering the period 2007 to 2013, including a new **National Indicative Programme for 2007-2009**. Negotiations on the priorities for EU funding in Egypt over the next NIP period will begin in the near future.
73. At May 2006, the EC programme portfolio of active projects in Egypt was valued at €1,200 million, placing the EU as one of Egypt's main providers of financial assistance. Just over half of this has been disbursed as payments. The focus of this assistance has been supporting sector reforms in health, industrial modernisation, the textile industry, and water, in addition to traditional funding for such areas as education, vocational training, and social development. More recently, the focus of EU grant funding has been through budget support for spinning and weaving, water reforms and customs reforms. Around 31% of EU aid takes the form of budget support. Good progress is being made in the area of economic reform. Recently, the Commission has been able to disburse €150 million on the strength of key reforms put in place by the Egyptian authorities (most notably, the simplification of investment procedures, financial and fiscal sector reforms).
74. Last December Egypt and the EU signed the "Support to the Association Agreement Programme" aimed at the upgrading of the overall institutional capacity of the Egyptian administration to deal with all aspects of the AA. It includes as one of its main characteristics the provision of public expertise obtained via the instrument of **twinning** with EU Member States administrations, of particular significance in the context of the ENP for the approximation of Egypt to EU norms and standards. The strong involvement of the Egyptian administration has already materialised in the launching on May 17th and 18th of the first three twinning projects, in the fields of tourism, maritime safety and postal services. Other projects in the areas of taxation, customs, electricity, conformity assessment, norms

and standards, health and statistics are currently under preparation.

75. Egypt will also be a beneficiary of the EU's €100 million contribution for combating avian flu in the Mediterranean, part of a multi donor trust fund. Bilaterally, the Commission has earmarked financial resources from within current programmes to help Egypt prepare for avian flu outbreaks.
 76. The **EIB** has a long-standing and excellent relationship with Egypt. The EIB's financial support to Egypt is one of the most comprehensive among the Mediterranean Partner Countries, not only in terms of actual financing of projects but also for the broader support the Bank provides towards the process of economic reform. Following the establishment of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in 2002, the EIB's lending programme in Egypt has been significantly enhanced to currently c. EUR 500 million annually. In addition, Egypt is also beneficiary of risk capital funds and, through the FEMIP Technical Assistance Support Fund and the FEMIP Trust Fund, of technical assistance grants. Following the upcoming review of FEMIP, and in close cooperation with the Egyptian authorities, the EIB envisages to continue its financial assistance to underpin the reform process and foster sustainable economic development through the financing of infrastructure projects in a wide range of sectors including i.a. the energy sector, environment, transport, industry and services. The EIB will also further enhance its support to SME development through intermediaries in the Egyptian financial sector.
 77. The EIB looks forward to conclude discussions with the Egyptian monetary authorities to facilitate local currency bond issues, possibly by the end of 2006, which will underpin the development of the Egyptian capital markets and facilitate local currency lending, thus broadening the potential scope for EIB lending to non-foreign currency generating sectors. In line with the overall FEMIP strategy, the EIB lending programme will put particular focus on private sector investment and FDI and the creation of an enabling environment thereto, as major drivers of economic development and regional integration.
 78. The EU looks forward to a fruitful and constructive meeting of the Association Council, which could mark an important moment for the further intensification of relations in all areas.
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