

## EGYPT UPDATE NUMBER 19



### CHRONICLES OF THE CONTINUED EGYPTIAN REVOLUTION OF 25 JANUARY 2011

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## **I. Introduction**

1. The growth of the Egyptian military's industrial capacity has played an important role in the Egyptian economy. The structure and nature of the military's economic empire has grown and developed over the last six decades, particularly after the coup d'état in 1952, which marked the beginning of the Egyptian military's domination of the country. The role and size of the Military Industrial Complex (MIC) has received increasing attention since the January 25 revolution, sparking scrutiny of all major sectors of society in an attempt to complete the revolution by enacting institutional change.
2. The increasing criticism of the MIC has invariably led to accusations of financial corruption against top military leaders. To prove the power and corrupting influence of the military, critics have pointed to parliament's preservation of Article 8bis of the Military Judicial Law (Law No. 25 of 1966, as amended), which restricts the trial of military officials to military courts even after their retirement. During a period in which numerous civilian and business leaders have been indicted or tried for corruption, the preservation of Article 8bis serves as a reminder that the Supreme Council of Armed Forces (SCAF) as well as lower-level officers continue to be effectively shielded from the same level of scrutiny others have been subjected to. Nevertheless, there have been repeated calls to bring the military's budget under the supervision of parliament, but this measure has faced strong opposition from the SCAF and the military's finances continue to be shrouded in secrecy.
3. In the face of criticism, military officials have repeated their longstanding defense of the MIC by emphasizing its pivotal role in securing the military's self-sufficiency and securing the nation's self-sufficiency by producing indispensable goods, particularly during times of disasters and crises.

## **II. The Military Industrial Complex: An Overview**

### **A. Becoming a Major Economic Player**

4. The key to the military's power is its large business and commercial interests in the country, which it has continued to develop since the 1952 coup. During nationalization programs during the 1960s, the military and its leaders came to own and take control of many major economic assets and means of production. The officers were not competent to manage economic and business matters, as their training was limited to military affairs and warfare. Inevitably corruption and mismanagement flourished.<sup>1</sup>

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<sup>1</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, available at: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

5. In the 1970s, President Anwar al-Sadat decided to reverse the economic policies of his predecessor, Gamal Abdel Nasser by privatizing some state-owned enterprises and giving Western consumer goods and services access to Egyptian markets. These changes had a major impact on the military's business interests and promised to lower its impact on the overall economy.<sup>2</sup> The 1979 peace agreement with Israel also caused Egypt to cut its defense budget and decrease the size of its military. In order to avoid firing soldiers outright, the military opened new factories to employ them. At that point, the active military numbered about 900,000, making it one of the largest in the world,<sup>3</sup> and the burgeoning military industrial complex became a mechanism for providing large numbers of former soldiers with meaningful and productive work. The MICs were also seen as a means of driving economic growth and development, as it was widely believed that the military had greater organizational skills and capacity to make drives these changes than any other group in Egypt.<sup>4</sup>
6. Since Sadat's privatization scheme in the 1970s, the military has succeeded in building an economic empire, the MIC, thereby reaping enormous profits for the military elite. Today it is estimated that the military controls about 10 to 40% of Egypt's \$256 billion economy.<sup>5</sup> The ongoing economic power of the military is based upon special privileges not enjoyed by any other company in the Egyptian public or private sectors, including subsidies, tax exemptions and labor subject to few regulations. While technically military-owned businesses are required to pay their utilities, they are often unofficially exempt from natural gas and electricity expenses which gives them a significant advantage over their private-sector competitors who are obliged to pay those expenses.<sup>6</sup> Many of the industries owned by the military also hold monopolies over the sectors in which they operate, further cementing their economic power.<sup>7</sup> Ultimately, the military's enterprises are not accountable to any government or regulatory body, and are above the laws and regulations applied to all other companies.<sup>8</sup>

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<sup>2</sup> *Id.*

<sup>3</sup> Ken Stier, *Egypt's Military-Industrial Complex*, TIME, February 9, 2011, available at: <http://www.time.com/time/world/article/0,8599,2046963,00.html>.

<sup>4</sup> Stephen H. Gotowicki, *The Role of the Egyptian Military in Domestic Society*, available at: <http://fmso.leavenworth.army.mil/documents/egypt/egypt.htm>.

<sup>5</sup> Mohamed Al-Khalsan, *The army and the economy in Egypt*, PAMBAZUKA NEWS, January 1, 2012, available at: <http://www.pambazuka.org/en/category/features/79025/print>; Ken Stier, *Egypt's Military-Industrial Complex*, TIME, February 9, 2011, available at: <http://www.time.com/time/world/article/0,8599,2046963,00.html>.

<sup>6</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, available at: <http://www.thedailynewsegyp.com/in-egypts-military-a-march-for-change.html>.

<sup>7</sup> Sarah A. Topol, *Egypt's Command Economy*, SLATE, December 15, 2011, available at: [http://www.slate.com/articles/news\\_and\\_politics/dispatches/2010/12/egypts\\_command\\_economy.html](http://www.slate.com/articles/news_and_politics/dispatches/2010/12/egypts_command_economy.html).

<sup>8</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, available at: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

## B. Military and Civilian Industry: A Contrast

7. The MIC produces a wide variety of products, from military supplies and equipment to housewares such as pots and pans. Military owned companies own substantial stakes in four critical sectors: military industries, civilian industries such as banking, tourism and construction, agriculture, and national infrastructure.<sup>9</sup>

8. There are several especially notable trends from the last 30 years that have impacted the MIC. The first is the shift within military industries from heavy equipment to more small-scale production. The military industry lacks an export market for heavy military products, leaving many of these heavy weapons in warehouses gathering dust. A good example of this is the vast collection of unsold tanks Egypt has produced over the years, estimated to be larger than the number of tanks in all of Sub-Saharan Africa and Latin America combined. As a result of this unsold stock and excess production capacity the military has shifted towards smaller scale projects that partner the Egyptian armed forces with foreign defense manufacturers willing to transfer modern technologies in exchange for sales contracts with Egypt.<sup>10</sup>

**Abrams M1-A1 tanks made by a corporation owned by the Egyptian military**



**Egyptian soldiers among agricultural products from military owned companies**

The second trend has been the shift in production from military products to civilian products and services. According to Sayed Mesh'al, the former Military Production Minister, approximately 40 percent of the MIC's industrial capacity is civilian in nature with other sources providing much higher estimates.<sup>11</sup>

### i. Military Industries

<sup>9</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, available at: <http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html>.

<sup>10</sup> Shana Marshall, *Egypt's other revolution: Modernizing the military-industrial complex*, FOREIGN POLICY IN FOCUS, February 20, 2012, available at: [http://www.fpif.org/articles/egypts\\_other\\_revolution\\_modernizing\\_the\\_military-industrial\\_complex](http://www.fpif.org/articles/egypts_other_revolution_modernizing_the_military-industrial_complex)

<sup>11</sup> Zeinab Abul-Magd, *Stalin's moustache and the military's wheel of production*, THE EGYPT INDEPENDENT, March 29, 2012, available at: <http://www.egyptindependent.com/opinion/stalin%E2%80%99s-moustache-and-military%E2%80%99s-wheel-production>.

9. In April 1975, Egypt, Saudi Arabia, the United Arab Emirates and Qatar formed the Arab Organization for Industrialization (AOI), an arms production consortium currently headed by Major-General Hamdy Waheeba. The Gulf countries provided funding for the venture<sup>12</sup> while Egypt provided the labor and industrial infrastructure. The AOI's objective was to produce weapons for its four members and become a major defense contractor to Arab, Islamic and developing countries, and thereby making the four founding members militarily self-sufficient, reduce production costs for military equipment and promote Arab cooperation. AOI investment allowed Egypt to rapidly expand its industrial assembly and manufacturing capacity. Four Egyptian factories were turned over to the AOI and production began through licensed manufacturing arrangements with Western firms. In 1979, with the signing of the Egypt-Israel peace treaty with Israel, the other members of AOI quit the organization and withdrew their funding, leaving Egypt as the sole owner of the organization. Egypt continues to maintain the AOI<sup>13</sup> that has now turned to civilian technology, and its revenue was estimated at 2.7 billion Egyptian pounds (\$470 million) in 2007-2008.<sup>14</sup>
10. In recent years, Egypt's arms military industry has produced a wide variety of products including artillery, mortar and small arms ammunition, Egyptian armored personnel carriers, the US M1A1 Abrams tank, British Lynx helicopters, French Gazelle helicopters, German/French Alpha Jet fighter jets, Chinese F-7 fighter jets, aircraft engines, and a wide variety of military electronics including radar and night vision devices. This production occurs in about 30 factories and companies that reportedly employ up to 100,000 people. In the 1980s the value of production in the industry was estimated at an average of \$400 million a year, making Egypt a major exporter of arms in particular to Iraq during the Iran-Iraq war. The profits from these exports were categorized as "off-budget" as they were not subject to government accounting or taxation.<sup>15</sup>



**The Macaroni Queen Company is a military owned company which produces various pasta products**

<sup>12</sup> The Gulf countries are estimated to have donated \$1.04 billion.

<sup>13</sup> **Stephen H. Gotowicki, *The Role of the Egyptian Military in Domestic Society*, available at: <http://fmso.leavenworth.army.mil/documents/egypt/egypt.htm>.**

<sup>14</sup> Cécile Hennion, *The Egyptian Army: The Great Unknown*, LE MONDE, February 15, 2011, available at: <http://worldcrunch.com/egyptian-army-great-unknown/2509>.

<sup>15</sup> **Stephen H. Gotowicki, *The Role of the Egyptian Military in Domestic Society*, available at: <http://fmso.leavenworth.army.mil/documents/egypt/egypt.htm>.**

**ii. Civilian Industries**

11. In the late 1970s, the Egyptian military converted large portions of its military production capacity to serve the civilian sector sponsored by the National Service Projects Organization (NSPO), a Ministry of Defense subsidiary established to control projects in the civilian sectors of the economy and reorient the military towards national economic development ventures. Today, military-run firms hold strong positions in a wide range of key industries and benefits from being able to use conscripts as cheap laborers.<sup>16</sup> A wide variety of products are produced by military owned companies, including home appliances such as washing machines and heaters; clothing; construction materials; stationary; pharmaceuticals; and microscopes. Most of these products are sold to military personnel through discount military stores, but they are also available to the general public. Profits from these activities are, like military export earnings, “off-budget”.<sup>17</sup>

**iii. Agriculture**

12. With the backing of the Food Security Division of the NSPO, the military set a goal of 100% self-sufficiency in foodstuffs. In the early 1980s, the NSPO began to develop a broad network of dairy farms, milk-processing facilities, cattle feed lots, poultry farms and fish farms. Reportedly, the military accounts for 18% of the Egypt’s total food production. Again, profits are “off-budget” and not subject to governmental oversight or taxation.<sup>18</sup>

**iv. National Infrastructure**

The military has also been involved in a significant number of major national infrastructure projects including the construction of power lines, sewers, roads, bridges, overpasses and schools, as well as the installation and maintenance of telephone exchanges. It is reported that a large number of civilian businesses were involved in such projects but the details of these



**Logo of the El Nasr Company for Intermediate Chemicals, a military owned corporation that produces fertilizers, insecticides and other chemical goods**

<sup>16</sup> Ken Stier, *Egypt’s Military-Industrial Complex*, TIME, February 9, 2011, available at: <http://www.time.com/time/world/article/0,8599,2046963,00.html>.

<sup>17</sup> Cécile Hennion, *The Egyptian Army: The Great Unknown*, LE MONDE, February 15, 2011, available at: <http://worldcrunch.com/egyptian-army-great-unknown/2509>; Stephen H. Gotowicki, *The Role of the Egyptian Military in Domestic Society*, available at: <http://fmso.leavenworth.army.mil/documents/egypt/egypt.htm>.

<sup>18</sup> Stephen H. Gotowicki, *The Role of the Egyptian Military in Domestic Society*, available at: <http://fmso.leavenworth.army.mil/documents/egypt/egypt.htm>.

ventures were not made publicly available.<sup>19</sup> The military is also involved in residential construction, both low-rent housing in Upper Egypt and Sinai, as well as luxury real estate in Cairo and tourist resorts along the North Coast. Once again, the details concerning the extent of the military's hold on Egyptian properties are unknown.<sup>20</sup>

13. The military is able to control residential construction through its effective control of unused land, which is estimated to constitute 87% of the total area of Egypt. By law, the military is able to seize any public land for the purpose of “defending the nation”. In practice, military leaders use seized public land for commercial investments, rather than the legally mandated purpose of national defense.<sup>21</sup> The most recent example of this appropriation of land is in the northern Cairo Island of al-Qursaya. Currently home to mainly rural peasants living off subsistence agriculture, the military began occupying the island in 2007 and in 2012 forcefully evicted the residents, reportedly to establish a military base for the defense of the capital. However, many human rights advocates claim that this is not the case, and that the military has slated this island for upscale residential and commercial development. Courts have continuously ruled in favor of the residents, however the military has remained.<sup>22</sup>
14. In addition, civilian competitors are slowed down in executing their projects since they often need military and security consent in order to embark on similar ventures, usually on the pretext of ensuring national security.<sup>23</sup>

### C. The Military Industrial Complex and the Revolution Against the Mubarak Regime

15. The military has been forceful in defending the structure of economic power and patronage resulting in the MIC. A recent threat to the military's economic power came from Gamal Mubarak, the former President's son, who attempted to reform Egypt's economy by proposing changes that would have disadvantaged the military elite. The MIC was also threatened by

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<sup>19</sup> Stephen H. Gotowicki, *The Role of the Egyptian Military in Domestic Society*, **available at:** <http://fmso.leavenworth.army.mil/documents/egypt/egypt.htm>; Cécile Hennion, *The Egyptian Army: The Great Unknown*, LE MONDE, February 15, 2011, **available at:** <http://worldcrunch.com/egyptian-army-great-unknown/2509>.

<sup>20</sup> Cécile Hennion, *The Egyptian Army: The Great Unknown*, LE MONDE, February 15, 2011, **available at:** <http://worldcrunch.com/egyptian-army-great-unknown/2509>; Sherine Tadros, *Egypt military's economic empire*, AL JAZEERA, February 15, 2012, **available at:** <http://www.aljazeera.com/indepth/features/2012/02/2012215195912519142.html>; Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, **available at:** <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

<sup>21</sup> Sherine Tadros, *Egypt military's economic empire*, AL JAZEERA, February 15, 2012, **available at:** <http://www.aljazeera.com/indepth/features/2012/02/2012215195912519142.html>; Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, **available at:** <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

<sup>22</sup> Aswat Masreya, *Court Orders al-Qursaya Residents to Stay, Military to Depart*, AL-AHRAM ONLINE, August 22, 2013, **available at:** <http://english.ahram.org.eg/News/79707.aspx>.

<sup>23</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, **available at:** <http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html>.

businessmen such as Gamal's key ally, Ahmed Ezz, who was able to monopolize the steel industry.<sup>24</sup> Both individuals have since the Revolution been removed from their posts and convicted of various types of financial corruption.

16. Following the uprising in 2011, the military's economic empire was threatened more than ever. The turbulence caused by the revolution and the political fallout stemming from Mubarak's resignation endangered the military's economic interests, which had been protected by the former government. The new parliament, dominated by the MB's Freedom and Justice Party and the Salafi Al-Nour Party, sought to draft a new constitution that would provide for increased oversight of the military budget, thereby constraining and perhaps even ending the military's domination of the country's economy.<sup>25</sup> The opposition and ordinary Egyptians called for the military's budget and economic holdings to be made public, as the MIC's appropriateness and legality was increasingly questioned. Mistrust was bolstered by Wikileaks documents which reported that the main priority of the military throughout the 2011 and 2012 elections was to ensure the election of a parliament and executive that would uphold the MIC. Whether the president was a member of the military was of little importance to the military.<sup>26</sup>
17. As before, the military argues that Egypt's new constitution must shield the military from the instability of Egyptian politics in order to uphold public security and economic stability. The SCAF attempted to secure the military's role by bringing itself under the new constitution "to ensure stability". In November 2011, the government tried to pass a constitutional declaration that, among other things, would have ensured the autonomy of the military's budget.<sup>27</sup> Previously the military budget was subject to specific laws and was not mentioned or accounted for in the constitution.<sup>28</sup> A violent response from the Egyptian people, however, stopped the SCAF's maneuverings.
18. Despite the uncertainties that have come as a result of the 2011 uprising, the military has continued to invest in and expand its economic holdings. While attention was focused on Egypt's ongoing political situation, it has been reported that the SCAF expanded the MIC by signing new deals with exporters, intensifying co-production agreements and coming to new agreements for the transfer of technology. In effect, Egypt's military rulers have seized the opportunity to expand while holding the reins of government. The SCAF engineered a post-transition system that not only protected the military's economic privileges, but perhaps even

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<sup>24</sup> Ken Stier, *Egypt's Military-Industrial Complex*, TIME, February 9, 2011, available at: <http://www.time.com/time/world/article/0,8599,2046963,00.html>.

<sup>25</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, available at: <http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html>.

<sup>26</sup> Sarah A. Topol, *Egypt's Command Economy*, SLATE, December 15, 2011, available at: [http://www.slate.com/articles/news\\_and\\_politics/dispatches/2011/12/egypts\\_command\\_economy.html](http://www.slate.com/articles/news_and_politics/dispatches/2011/12/egypts_command_economy.html).

<sup>27</sup> Sherine Tadros, *Egypt military's economic empire*, AL JAZEERA, February 15, 2012, available at: <http://www.aljazeera.com/indepth/features/2012/02/2012215195912519142.html>.

<sup>28</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, available at: <http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html>.

enhanced them. In the end, while public attention focused on the SCAF's attempts to shape the electoral outcomes and the legal framework of post-revolution Egypt, it also used its power to expand its influence over the Egyptian economy.<sup>29</sup>

#### D. Expansion of the MIC

19. One of the most obvious examples of the recent expansion of the MIC is the recent construction of the EGP 3 billion “Mubarak Complex for the Defense Industry” on the outskirts of Cairo, which houses several of the military's largest factories.<sup>30</sup> The relocation process occurred parallel to significant investment in military factories, especially those that produce small arms and raw materials used in weapons production. The increased investment in industrial capacity was often achieved through joint venture agreements with foreign firms to bring in the licenses and technology necessary to expand the military's capacity to produce these new weapons systems. In December 2011, former Minister of Military Production Sayed Mesh'âl announced the continuing construction of the “Mubarak Complex II”, an extension of the original complex.<sup>31</sup>
20. In addition to investments in industrial production and construction, the Egyptian military also continued to invest in co-production and licensed manufacturing agreements with foreign defense firms concentrating on mid-range manufacturing. The Egyptian military aimed at diversifying its partners by approaching subsidiaries and smaller independent suppliers. This strategy had two potential benefits. First, the agreement was more likely to result in sustainable production, since they did not require official approval from the host states of exporting firms. Advanced systems are not always suitable for export as countries prefer to purchase such goods from the US and Europe. Second, subsidiary firms and smaller independent manufacturers are more willing to agree to co-production demands in order to secure a sale than are larger companies.<sup>32</sup>

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<sup>29</sup> Shana Marshall, *Egypt's other revolution: Modernizing the military-industrial complex*, FOREIGN POLICY IN FOCUS, February 20, 2012, available at: [http://www.fpif.org/articles/egypts\\_other\\_revolution\\_modernizing\\_the\\_military-industrial\\_complex](http://www.fpif.org/articles/egypts_other_revolution_modernizing_the_military-industrial_complex).

<sup>30</sup> This includes Shoubra Engineering Industries, Maasara Engineering Industries, Maadi Engineering Industries, Heliopolis Company for Chemical Industries, and Abu Zaabal Company for Specialty Chemicals.

<sup>31</sup> Shana Marshall, *Egypt's other revolution: Modernizing the military-industrial complex*, FOREIGN POLICY IN FOCUS, February 20, 2012, available at: [http://www.fpif.org/articles/egypts\\_other\\_revolution\\_modernizing\\_the\\_military-industrial\\_complex](http://www.fpif.org/articles/egypts_other_revolution_modernizing_the_military-industrial_complex).

<sup>32</sup> Shana Marshall, *Egypt's other revolution: Modernizing the military-industrial complex*, FOREIGN POLICY IN FOCUS, February 20, 2012, available at: [http://www.fpif.org/articles/egypts\\_other\\_revolution\\_modernizing\\_the\\_military-industrial\\_complex](http://www.fpif.org/articles/egypts_other_revolution_modernizing_the_military-industrial_complex).

### E. Lack of Transparency

21. Over the past thirty years the military has resisted disclosing information about its enormous interests in the Egyptian economy, and has consistently insisted on providing no transparency or accountability to the government or the general public.<sup>33</sup> Transparency is particularly limited when it comes to the military budget, military salaries and expenditures. Jane's Defence Weekly estimates the military budget of Egypt to be about \$5 billion, a portion of which is covered by the \$1.3 billion provided annually by the U.S. as part of its military assistance package.<sup>34</sup> Interestingly enough, the portion of the Egyptian military's budget concerning actual defense-related activities is readily available to the public, as its joint endeavors with foreign partners obligate a certain level of transparency. However, the larger portion of the military's budget that has to do with the production of non-military goods and services is kept secret. As per law no. 313/1956, discussing the military's classified activities could be classified as disclosing "national security secrets" and result in prosecution before a military court.<sup>35</sup>

### F. Corruption and Exploitation of Workers

22. The Egyptian military built its economic empire at the expense of poorly paid conscripts and factory workers, who are forced into poverty and have their rights violated.<sup>36</sup> Meanwhile, the military elite benefit from the lucrative setup which benefits the top officers greatly. The military elite were not only the recipients of massive payments from the MIC, but also received substantial non-financial benefits such as heavily subsidized accommodations.<sup>37</sup> Inevitably the military's economic empire fosters a culture of corruption as high rank officers, government employees and other members of the elite benefit at the expense of the Egyptian people.<sup>38</sup>

<sup>33</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, available at: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

<sup>34</sup> Ken Stier, *Egypt's Military-Industrial Complex*, TIME, February 9, 2011, available at: <http://www.time.com/time/world/article/0,8599,2046963,00.html>.

<sup>35</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, available at: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>; Sarah A. Topol, *Egypt's Command Economy*, SLATE, December 15, 2011, available at: [http://www.slate.com/articles/news\\_and\\_politics/dispatches/2010/12/egypts\\_command\\_economy.html](http://www.slate.com/articles/news_and_politics/dispatches/2010/12/egypts_command_economy.html).

<sup>36</sup> Journalist Zeinab Abul Maged argues that in the 1950s and 60s Egypt adopted the Soviet economic pattern and that the military elites learned from the former Soviet Union since several of the military leaders who are currently in power belong to that era. See Zeinab Abul-Magd, *Stalin's moustache and the military's wheel of production*, THE EGYPT INDEPENDENT, March 29, 2012, available at: <http://www.egyptindependent.com/opinion/stalin%E2%80%99s-moustache-and-military%E2%80%99s-wheel-production>.

<sup>37</sup> Jason Ditz, *Egypt's Military-Industrial-Bottled Water-Farming Complex*, February 6, 2011, available at: <http://news.antiwar.com/2011/02/06/egypts-military-industrial-bottled-water-farming-complex/>

<sup>38</sup> *Inside The Egyptian Military's Brutal Hold on Power*, FRONTLINE, January 24, 2012, available at: <http://www.pbs.org/wgbh/pages/frontline/foreign-affairs-defense/revolution-in-cairo-foreign-affairs-defense/inside-the-egyptian-militarys-brutal-hold-on-power>.

23. A particularly disturbing aspect of the MICs is their reliance on poorly paid conscripts to work at below market rates. All Egyptian men are required to serve in the military for one to three years based upon their educational level. Many during this time work at military-run industries in a form of “modern” slavery, making between \$17 and \$28 a month.<sup>39</sup> Some end up working without pay, for example collecting eggs or tending to livestock and chickens.<sup>40</sup> Ironically, should Egypt require their services as soldiers these conscripts would be defenseless, having received no combat training and spent their entire military service working for the MIC as cheap labor.<sup>41</sup>
24. The military dominates the politics and economies of Egyptian society on the local and national level. Various Egyptian governorates and posts in city and local governments are reserved for retired officers; 19 of Egypt’s 29 provincial governors are former members of the military and security services, as are the heads of institutions such as the Suez Canal Authority and several government ministries.<sup>42</sup> Former and present members of the military also hold senior positions in all layers of Egyptian society, ranging from civilian institutions to government ministries.<sup>43</sup> These military officials are responsible for managing wide-ranging economic sectors, often without appropriate experience such economic activities.<sup>44</sup> These military officers are often unqualified to run the governments or administrations of these areas and consequently development has been uneven and largely unsuccessful.
25. There is no shortage of corruption examples of army generals mismanaging local economies. One prominent example is General Mustafa al-Sayed, the governor of Aswan, who was involved in corruption cases involving public lands and the tourism sector. Al-Sayed appointed at least ten retired generals to senior positions and offered them extravagant salaries, even though they lacked relevant qualifications and experience.<sup>45</sup>
26. The working conditions at MIC enterprises have not gone on unopposed, however. Workers at military-owned enterprises have staged numerous sit-ins and protests in order to draw the public’s attention to unsatisfactory wages, violations of labor rights and growing corruption. Several protests were staged at economic institutions owned by the military or civil institutions run by military generals, such as military factories and the Suez Canal Authority’s companies

<sup>39</sup> The conscripts are fed by the army and receive basic medical care.

<sup>40</sup> Jason Ditz, *Egypt’s Military-Industrial-Bottled Water-Farming Complex*, February 6, 2011, *available at*: <http://news.antiwar.com/2011/02/06/egypts-military-industrial-bottled-water-farming-complex/>

<sup>41</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, *available at*: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

<sup>42</sup> Sarah A. Topol, *Egypt’s Command Economy*, SLATE, December 15, 2011, *available at*: [http://www.slate.com/articles/news\\_and\\_politics/dispatches/2010/12/egypts\\_command\\_economy.html](http://www.slate.com/articles/news_and_politics/dispatches/2010/12/egypts_command_economy.html).

<sup>43</sup> Marwa Awad, *In Egypt’s military, a march for change*, REUTERS, April 10, 2011, *available at*: <http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html>.

<sup>44</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, *available at*: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

<sup>45</sup> *Id.*

- and ports. The response of the military has often been fierce, sometimes resulting in the prosecution of agitators before military courts.<sup>46</sup>
27. In August 2010, workers at “Factory 99” protested after one of their colleagues died as a result of an explosion. The director of the factory, a military general, had brought in gas cylinders to test them at the factory, but had failed to train the workers in their use. The director seemed indifferent to the danger of the situation and when several cylinders exploded he told the workers that it did not matter if some of them died. Eventually an explosion led to the death of a worker, prompting the workers to organize a sit-in. Some of the striking workers stormed the director’s office and beat him. Subsequently, six of the workers’ leaders were tried in military courts for charges of revealing “war secrets”.<sup>47</sup>
28. Protests were also staged in the Suez Canal region where the military had appointed officers to senior positions in several civil sectors, including petroleum, marine ports and the Suez Canal companies and ports. Suez Canal workers staged a series of protests and during one protest and blocked the train tracks. Several protesters were arrested and brought to military trial.<sup>48</sup> In February 2011, some 2,000 workers and engineers in the petroleum sector protested in front of the People’s Assembly building against bad conditions, as well as the increasing militarization of jobs in the civil sector. The following month, thousands of workers in the same sector joined the protests, this time from companies including Petrojet and Petrotrade. The military responded aggressively, arresting some of the protesters and prosecuting them in a military court. Despite these impediments, the workers continued their protests in front of the People’s Assembly.<sup>49</sup>
29. In February 2011 more than 1,500 employees gathered outside the headquarters of the AOI. As their demands were disregarded, they renewed their protests in August and the remaining 16,000 workers of the organization joined them. The leaders of the protests were suspended one month later.<sup>50</sup> Tens of thousands of workers at military factories 9, 63 and 200 also went on strike in 2011.<sup>51</sup>
30. In March 2012, 5,000 workers at military factories 45 and 99 staged protests and were joined by protesters from the Muhemmat Factory in Gharbiya.<sup>52</sup>

<sup>46</sup> Zeinab Abul-Magd, *Stalin’s moustache and the military’s wheel of production*, THE EGYPT INDEPENDENT, March 29, 2012, available at: <http://www.egyptindependent.com/opinion/stalin%E2%80%99s-moustache-and-military%E2%80%99s-wheel-production>.

<sup>47</sup> Zeinab Abul-Magd, *The Army and the Economy in Egypt*, JADALIYYA, December 23, 2011, available at: <http://www.jadaliyya.com/pages/index/3732/the-army-and-the-economy-in-egypt>.

<sup>48</sup> Zeinab Abul-Magd, *Stalin’s moustache and the military’s wheel of production*, THE EGYPT INDEPENDENT, March 29, 2012, available at: <http://www.egyptindependent.com/opinion/stalin%E2%80%99s-moustache-and-military%E2%80%99s-wheel-production>.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

## G. Justification

31. When presented with criticism of the MIC, military leaders argue that the MIC's existence boosts the country's economy by creating jobs, bring revenue to the state and promote foreign investment. It is also argued that the MIC enhances technology transfers and collaboration with foreign defense manufacturers.<sup>53</sup> The U.S. military has praised its Egyptian counterparts for their ability to "employ large numbers of soldiers in meaningful activities," and both parties have insisted that the MIC benefits the Egyptian economy. The U.S. seems unwilling or unable to admit that the MIC is operating with legal immunity and is dominating the economy to the severe detriment of efficiency. While its defenders continually sing the MIC's praises, the system has ultimately destroyed Egypt's economy and caused suffering to the Egyptian public.<sup>54</sup>

## III. Tensions Within the Egyptian Military

32. In October 2011 roughly 500 Egyptian army officers based at the Air Defense Institute on the outskirts of Alexandria staged a mini revolt lasting several days. The revolt took place after a fellow officer was punished for an incident on October 9, 2011 when 25 civilians and 22 soldiers died during protests in Alexandria.<sup>55</sup> The revolting officers refused to train and demanded to meet either Field Marshal Mohamed Hussein Tantawi or his second in command. The men called for change and criticized that SCAF, thereby reflecting a deep divide within the military. Some Air Defense Institute officers demanded financial compensation for the families of those who died in the October 9 protests, which has long been a matter of concern for lower ranking officers in the Egyptian military.<sup>56</sup>
33. During the last 6 months the tensions within the military have grown considerably; a dozen serving or recently retired mid and lower-ranking officers have stated that the revolution is an opportunity for them to improve their circumstances, especially for better treatment, increased salaries, and improved conditions and training. As with the rest of the country, there is a clear division within the military between the small elite which reaps all the benefits while the vast majority of officers and soldiers struggle to survive. It is estimated that the wealth produced by the MIC is concentrated in the top 15% of the army's officer corps "who remain loyal through a

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<sup>53</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, [available at: http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html](http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html); Foreign Policy in Focus, Shana Marshall, "Egypt's other revolution: Modernizing the military-industrial complex", February 20, 2012, [available at: http://www.fpif.org/articles/egypts\\_other\\_revolution\\_modernizing\\_the\\_military-industrial\\_complex](http://www.fpif.org/articles/egypts_other_revolution_modernizing_the_military-industrial_complex).

<sup>54</sup> Jason Ditz, *Egypt's Military-Industrial-Bottled Water-Farming Complex*, February 6, 2011, [available at: http://news.antiwar.com/2011/02/06/egypts-military-industrial-bottled-water-farming-complex/](http://news.antiwar.com/2011/02/06/egypts-military-industrial-bottled-water-farming-complex/)

<sup>55</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, [available at: http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html](http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html).

<sup>56</sup> *Id.*

system of patronage”.<sup>57</sup> The profits from the MIC are used by the elite to maintain a certain lifestyle, including luxurious social clubs and comfortable retirement homes.<sup>58</sup> Under Nasser, retired army officers were rewarded with ministerial positions or positions in the provincial governorates. Under Sadat and Mubarak, retiring officers were rewarded by receiving positions in the military’s economic empire and service industry; police officers were rewarded with political positions.<sup>59</sup>

34. Another concern among the rank and file of the officer corps concerns the lack of adequate training. A pertinent example is how inexperienced soldiers are often placed in charge of armored personnel carriers which are then dispatched to protests zones where and injure protesters unintentionally due to lack of experience with the machines. Low-level officers are taught to accept the system and obey commands, often with disastrous results. In addition, protesting officers demand that the chain of command be decentralized to allow greater flexibility and rapidity in responding to a crisis.<sup>60</sup>
35. The unaddressed grievances among junior officers have caused resentment to fester, although a coup by these lower level officers is considered unlikely. The top level officers such as Field Marshal Mohamed Tantawi and his Chief of Staff Sami Anan have attempted to contain the officers’ frustration by meeting with military units in an attempt to boost morale and personally assure soldiers and junior officers that their salaries will be raised and their concerns addressed. A concrete action taken by the SCAF was to raise pensions for military personnel, without defining a maximum payment. The move was officially to improve living standards of soldiers, who have suffering from the effects of high inflation with their static pensions.<sup>61</sup>
36. It has been reported that after the January 2011 uprising the SCAF acted quickly to secure the loyalty of all mid and low-level officers by paying bonuses of L.E. 250 and L.E. 500 (US\$ 40-80) whenever a protest took place, irrespective of whether the officer was on duty or not. At the height of the unrest, reserve officer salaries doubled and everyone received bonuses. It is reported that during January and February 2011 officers received an average of L.E. 2,400 (US\$ 390) above their normal salary. Officers were naturally pleased with the bonuses and cared less about the underlying reasons for such privileges.<sup>62</sup> Higher ranking officers received greater bonuses and it is estimated that officers holding the rank of colonel and higher received bonuses

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<sup>57</sup> *Id.*

<sup>58</sup> Ken Stier, *Egypt’s Military-Industrial Complex*, TIME, February 9, 2011, [available at:](http://www.time.com/time/world/article/0,8599,2046963,00.html) <http://www.time.com/time/world/article/0,8599,2046963,00.html>.

<sup>59</sup> Sherine Tadros, *Egypt military’s economic empire*, AL JAZEERA, February 15, 2012, [available at:](http://www.aljazeera.com/indepth/features/2012/02/2012215195912519142.html) <http://www.aljazeera.com/indepth/features/2012/02/2012215195912519142.html>.

<sup>60</sup> Marwa Awad, *In Egypt’s military, a march for change*, REUTERS, April 10, 2011, [available at:](http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html) <http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html>.

<sup>61</sup> *Egyptian military council grants 15% salary hike to workers*, AFRICAN MANAGER, May 4, 2012, [available at:](http://www.africanmanager.com/site_eng/detail_article.php?art_id=16317) [http://www.africanmanager.com/site\\_eng/detail\\_article.php?art\\_id=16317](http://www.africanmanager.com/site_eng/detail_article.php?art_id=16317).

<sup>62</sup> Jack Shenker, *Egyptian army officer’s diary of military life in a revolution*, THE GUARDIAN, December 28, 2011, [available at:](http://www.guardian.co.uk/world/2011/dec/28/egyptian-military-officers-diary) <http://www.guardian.co.uk/world/2011/dec/28/egyptian-military-officers-diary>.

of \$11,600.<sup>63</sup> According to Western diplomatic sources, the SCAF has also expedited dozens of promotions for younger officers in an attempt to ensure their loyalty and to give credence to their stated intention of handing over power to a civilian government. Despite these benefits, the military has suffered from desertions since the fall of Mubarak, predominantly among its officer class.<sup>64</sup>

37. Field Marshall Tantawi has also defended the military's training methods. While they continue to express their displeasure, critical junior officers have indicated that they will refrain from making on further demands until the SCAF hands over power to an elected government.<sup>65</sup>
38. The persistent problem facing the SCAF in the post-revolution period is the growing friction between itself and junior officers, and to contain unrest within the ranks. At its base, the problem is not simply an issue of uneven distribution of wealth, but also an ideological and political disconnect between the rank and file of the military and with the SCAF. There is evidence that officers feel that the military is being manipulated to suit the SCAF's political ambitions.<sup>66</sup> In addition, many officers resent being pushed into the role of the police and being consigned to patrolling and maintaining law and order, a role they see as being below them.
39. The military is the ultimate guarantor of the SCAF's power, and the growing unrest amongst officers could have ominous consequences. As a result, the Council has been increasingly reluctant to do anything that would risk further damage to its relationship with junior officers and the rank and file. Unlike in the past, the SCAF no longer give orders that go against the wishes of the officers without running the risk that the orders will be disobeyed, and potentially a mutiny.<sup>67</sup>

#### IV. Legal Controls

40. There are no external legal controls on the MIC. It is subject to internal control by the Ministry of Armaments and ultimately by the Minister of Defense. Internally, each industrial complex or company follows the same accounting rules and supervision developed by the Ministry of Armaments. The Minister of Defense appoints the members of the board most of whom are from the military and most receive such appointments on their retirement. The heads of these industrial complexes and factories are officially appointed by their respective boards but they are really subject to the control of the Minister of Defense. All such appointments and senior

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<sup>63</sup> Patrick Galey, *Why the Egyptian Military Fears a Captains' Revolt*, FOREIGN POLICY, February 16, 2012, [available at: http://www.foreignpolicy.com/articles/2012/02/16/why\\_the\\_egyptian\\_military\\_fears\\_a\\_captains\\_revolt](http://www.foreignpolicy.com/articles/2012/02/16/why_the_egyptian_military_fears_a_captains_revolt).

<sup>64</sup> *Id.*

<sup>65</sup> Marwa Awad, *In Egypt's military, a march for change*, REUTERS, April 10, 2011, [available at: http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html](http://www.thedailynewsegypt.com/in-egypts-military-a-march-for-change.html).

<sup>66</sup> Patrick Galey, *Why the Egyptian Military Fears a Captains' Revolt*, FOREIGN POLICY, February 16, 2012, [available at: http://www.foreignpolicy.com/articles/2012/02/16/why\\_the\\_egyptian\\_military\\_fears\\_a\\_captains\\_revolt](http://www.foreignpolicy.com/articles/2012/02/16/why_the_egyptian_military_fears_a_captains_revolt).

<sup>67</sup> *Id.*

position-holders are vetted by military intelligence. None of these enterprises are subject to income taxation and their products are exempt from import/export duties. All materials imported for purposes of being industrialized are not subject or are exempt from customs.

41. There is no published budget either for the individual enterprises or cumulatively. Though there is of course a budget available to the minister and subject to the Ministry of Defense's financial and administrative control.
42. The profits of these enterprises are distributed in part to the workers in accordance with Egyptian Labor Law (Law No. 12 of 2003), the board members decide on their compensation subject to approval of the Minister of Defense. The workers are subject to Egyptian Labor Law and they receive the same benefits of public service employees in terms of retirement benefits and insurance except that they have the advantage of having access to the military health system which is separate from the civilian public sector health system and which is known to be significantly different qualitatively.
43. Any other profits are basically returned to the Ministry which then employs such profits in the manner that is deemed fit by the Minister of Defense. This is the pool of resources available for distributing bonuses to senior military officers. These bonuses are usually distributed in cash thus without being subject to income tax by the recipient. Very few people outside the SCAF and a few trusted persons at the senior level of the Ministry of Defense know who gets what and how much. Rumor has it that these bonuses are allocated by categories one of which referred to '*Badal Walaa*' which translates to 'Loyalty Supplement'.

44. **The office of purchases and sales of the Ministry of Defense**

This office has been established by then Field Marshall and Minister of Defense Mohamed Abou Ghazallah in the early eighties. That office receives a commission on sales and other transactions. The profit from these commissions goes in part to those working in that office. Its allocation to other bonuses for officers is considered a 'military secret'. During the Iraq/Iran war, Egypt supplied military equipment to Iraq, in particular, mines and explosives, ammunition of various types for tanks and artillery and at the time rumor had it that not only the Egyptian officers working in that office received bonuses but so did the Iraqi officers who were doing the purchasing.

Also during the period in which the US was arming and funding the Afghani fighting forces opposing the Russian occupation, it was reported that some of their military equipment was purchased by the US CIA through that office at what was believed at the time to be a significantly higher price. These transactions like the manufacturing transactions mentioned above are not under any external control nor are they subject to any taxes.