

Update on ESOP Developments in Egypt

• CESJ president Norman Kurland recently returned from his second trip to Egypt where he has been working as part of a professional team including economic development expert Itil Asmon and one of Egypt's most prominent attorneys, Mahmoud Fahmy, to structure the first Employee Stock Ownership Plan (ESOP) in Egypt for the Alexandria Tire Company. Thanks to the courageous initiative and persistence of USAID Investment Program Director Bruce Mazzie in "preparing the ground" many months before, the ESOP team has been able to complete most of the essential loan and other legal documents in only a few months. The final stages of purchasing the shares for the employees are expected to be completed in September.

The Alexandria Tire Company (ATC) is a \$150 million joint venture between the Egyptian government-owned tire manufacturer TRENCO, the Pirelli Tire Company of Italy, 11 other investors, and the "ATC Employee Shareholders' Association," which the team invented as a substitute for an ESOP Trust, an entity not legally recognized under Egyptian law. With a loan of 42 million Egyptian pounds (\$18.5 million) to purchase 30.5% of the stock, the "ESOP" will be the largest shareholder of this "state-of-the-art" steel-belted radial truck tire manufacturer.

While ATC has no employees at present, it is expected to complete construction in 3 years and create 800 new jobs. Because of favorable marketing conditions, within 6 years after start-up ATC should generate enough profits to service the ESOP debt and begin paying the employees dividend incomes (non-taxable under Egyptian law) twice that of their wages. One unique feature in this ESOP model is that the 3,500 employees of the mother company, TRENCO, would also be covered under the ESOP.

Working closely with USAID's Bruce Mazzie, Cairo mission officer Amal Amin, and officials of the Egyptian tire company TRENCO, the ESOP team engaged in numerous negotiations and document drafting sessions with Egyptian government and bank

officials. In one particularly important session, Norm, Bruce, and TRENCO chairman Fathy El-Feky met for 2 hours with Ahmed El Amawi, who heads the Federation of Egyptian Trade Unions and Michael O'Farrell, representative of the AFL-CIO sponsored African American Labor Center. Norm explained the ESOP concept and stressed the importance of union involvement in the earliest stages of designing the ownership participation program for the ATC ESOP.

In a letter praising the work of all the parties involved, TRENCO Chairman El-Feky remarked, "we still have a long way to go, but I am optimistic and look forward to the challenge with increasing enthusiasm and confidence."

• The Weekly Report No. 46 (7/14/88) of USAID's mission in Egypt mentioned that the General Organization for Industries (GOFI) of Egypt's Ministry of Industry is seeking solutions to resolve the debt service problems of Egypt's public sector companies. In a June 28th meeting with USAID staff, GOFI Deputy Chairman Mongy proposed that USAID provide local currency assistance (through an existing program set up for that purpose), to enable qualifying firms to convert their debt to equity through an ESOP.

• Rémy Schlumberger, the head of the Paris-based worker participation group FONDACT who recently joined CESJ, told us a revealing story. In the Tele-mechanique Company, a large manufacturer of industrial robots, the workers had achieved a significant degree of involvement in the firm's management. Unexpectedly, the company became the target of a foreign takeover attempt. When the employees tried to prevent being taken over by forming an ESOP, they discovered that it was impossible. Why? French law provides no mechanism for an entity representing workers (such as an ESOP) to borrow the money necessary for employees to buy-out their company. Mr. Schlumberger is currently promoting legislation to permit ESOPs under French law.

• Starting in September 1988, CESJ will launch an Information and Education Program entitled "Building Economic Justice...From the Ground-Up." This program is designed to sharpen the participant's understanding and fluency in the principles of economic justice and practical tools of expanded capital ownership, as well as to stimulate broad citizen participation in economic justice initiatives. For information, call (703) 243-5155.

August Meeting of CESJ

When: Saturday, August 20, 1988

Where: National Graduate University

1101 N. Highland St., Arlington, VA

(across from the Clarendon Metro station)

Information: Call (703) 243-5155

9:30 am-12 noon: CESJ Brainstorming Session

12:00-12:45: CESJ News Update

12:45-1:30: Break for refreshments

1:30-3:30: Our guest speaker, Dr. Gerald Leighton of the American Freedom Coalition, will discuss the purpose and projects of the **Economic Justice Initiatives Task Force**. The EJI Task Force, in collaboration with CESJ, is developing expanded capital ownership models for residents and workers in several areas in and around Washington, DC.

*** Closing Thoughts ***

"To provide a realistic opportunity for more U.S. citizens to become owners of capital, and to provide an expanded source of equity financing for corporations, it should be made national policy to pursue the goal of broadened capital ownership."

From the Report of the Joint Economic Committee of the U.S. Congress, January 1976