

Learnings & Takeaways from Europe's Industrial Sector during
Covid-19
February 2021



CEDAR OXYGEN

Economic Recovery Platform for Lebanon

جَمْعِيَّةُ الصَّنَاعِيِّينَ اللَّبْنَانِيِّينَ
ASSOCIATION OF LEBANESE
INDUSTRIALISTS



Our membership signifies a commitment to deepening our engagement in the impact investing for Lebanon to cause a net effect in governance, improve the well being of society as well to promote beneficial changes to the environment

Introduction

Beirut, January 25th 2021 – Following the government’s decision to extend the full lockdown to February 8th, including the full lockdown to the Industrial sector, the Association of Lebanese Industrialists (ALI) and Cedar Oxygen (CedarO2) an economic recovery platform, condemn the controversial decision that will cause shortages in Lebanese markets as well as risk jobs, capital inflows and livelihoods during the apex of the crisis.

Both ALI and CedarO2, strongly demand an immediate revision of the government’s decision which will cause a complete halt on the core of the nation’s productive economy, which is highly needed by the country suffering from an extended Covid-19 surge. The Lebanese industrial sector is an active contributor to containing the impact on the Lebanese population through the production of health, hygiene and safety products, in addition to providing competitive products to supply local food and beverage demand at local currency prices versus imported products that drain the economy of much needed foreign currency liquidity.

ALI and CedarO2 believe that shutting down a vital part of the productive economy is not a viable solution and it will have strong negative long-term effects on a country that is already facing insurmountable challenges, and will severely limit chances to reboot the economy, raise employment, and bolster crucial trade in the foreseeable future.

Stopping exports as a result of closing the factories will lead in the short term to deprivation of local markets of much needed products at competitive local currency prices, and to the failure of manufacturers to fulfil export obligations that drive foreign currency into the Lebanese economy. In the medium term, international customers will divest from Lebanon, manufacturers will be forced to cut jobs and Lebanon will be more reliant on foreign exports than it is currently.

Industry can play a critical role in supplying local markets with competitively priced products, it can secure ever expanding flows of foreign currency, reduce reliance on imports and create much needed local jobs. Halting industry and manufacturing activities can only derail further a heavily impacted industry driving it towards an inability to recover capacity.

Lessons learnt from other countries should be applied in Lebanon.

Since the beginning of the pandemic and even in complete lockdown scenarios, European countries have allowed basic sectors, especially industry and services to work to secure life supplies and consumer goods for citizens. Looking at these examples, many lessons can be applied as of today as regards safety measures for the Lebanese Industrial sector.

This research aims to highlight the importance that has been given to the industrial sector in France, Germany, Italy and the UK and the measures that have been implemented by those governments to keep the industrial sector operating normally.

Case Study: France

Covid-19 Context	% death*	% cases*	Incidence rate since 2021	Lockdowns	Industry forced to close
*% of total population	0.11%	4.8%	403.5	- March 2020 - November 2020	- No (partially due to low commercial activity) - No

Context

France registered its first Covid-19 case on November 12, 2019. Since then, the total number of cases has reached 3.2 million people, forcing the government to implement drastic measures such as lockdowns, curfews and total shut-down of non-essential businesses and other venues open to the public retail stores, shopping centres, and restaurants. During, the first two weeks of the lockdown in March 2020, the industrial sector has operated at 50% of its capacity resulting in slow recovery in the following months. Some industries have never stopped operating such as Agri-food, Energy, Health and Water & Waste. Considered essential and vital for the economy (12% of the GDP) and for the battle against the pandemic, the industrial sector has been supported by the government with tax and financial measures and kept operating even during the second lockdown. France has chosen this political approach to ensure a self-efficiency for the country for health supplies, food and other “essential to the life of the nation” industries.

Overview






In response to the first covid-19 wave that has peaked at 7500 daily cases end of March, the French government has implemented a first full lockdown for the country that resulted in a fall of the GDP of -13.8%. The manufacturing production followed the same path (-17% in April'20 & -21% in May'20) with some industries that are still being completely overshadowed by the crisis. Thus, the employment in the industry had the same fate i.e. -0.32% in Q2-2020 & -0.84% in Q3-2020.

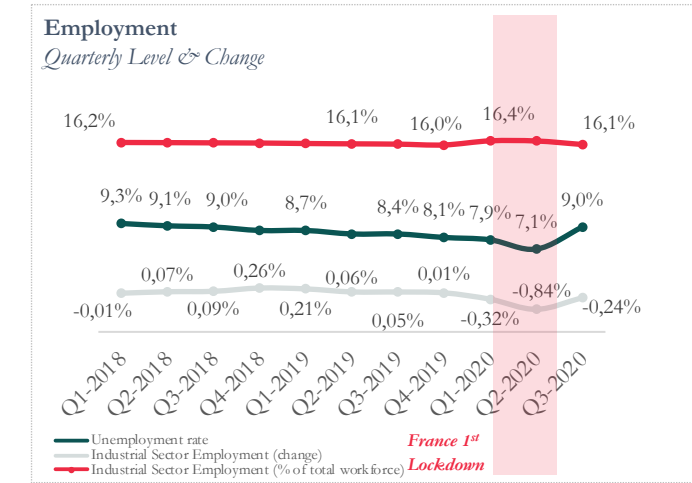
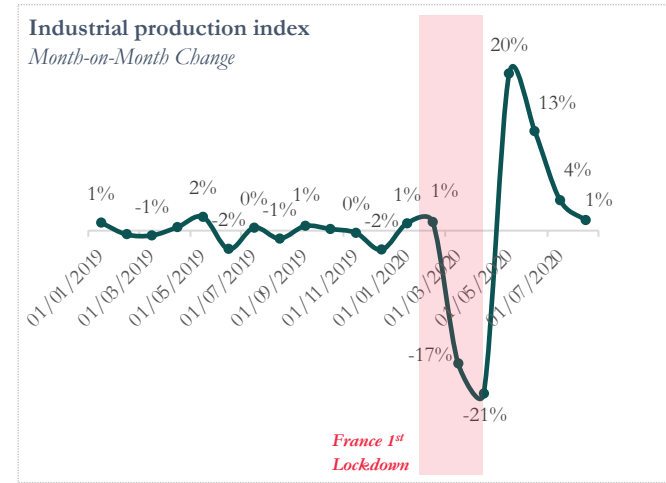
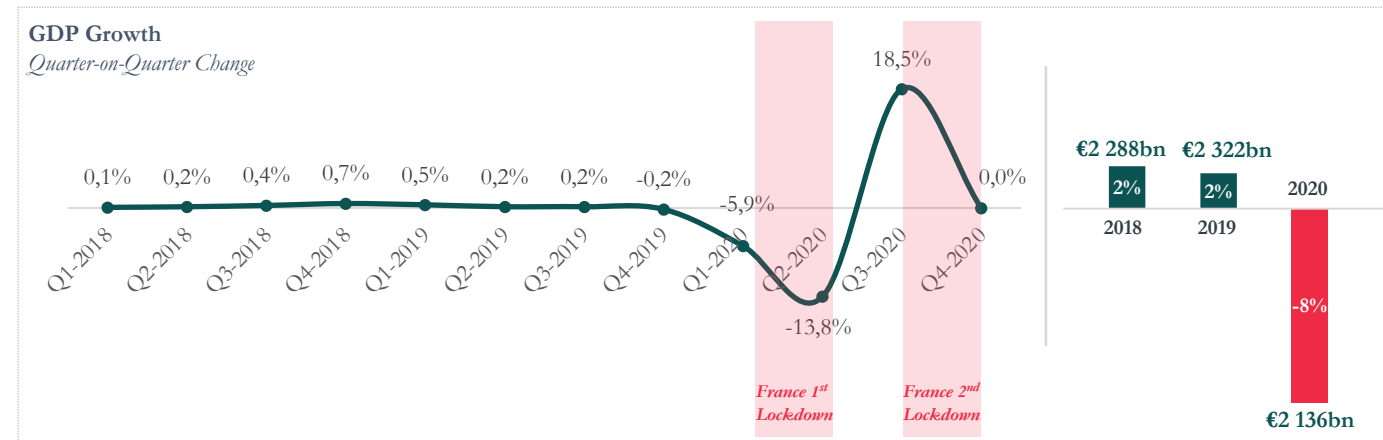
Following this lockdown period, the economy has re-started operating quasi-normally with as result a jump of 18.5% from Q2-2020 and Q3-2021 for the activity and an increase of +20% of the Industrial Production Index. The second lockdown had a limited effect on the economy (0% change between Q2-2020 and Q3-2021) since businesses (excluding non-essential businesses) have operated normally during this period, and thanks to the funding measures implemented by the French government to help the economy. This also explains the unemployment rate that stayed at a relatively acceptable level of 9% in Q3-2020.

The overall impact of the covid-2019 on the economy stands at -8% on the GDP in 2020.

Overview of the measures to fight the Covid-19 specific to the industrial sector

To allow manufactures to keep running, French authorities have implemented a series of protocols and measures to ensure the health and safety of employees of which:

-  Prepare the sites and offices to host employees safely including ensuring the conformity and proper functioning of ventilation systems.
-  Implement organisational measures such as: avoiding crowded spaces by staggering working hours
-  Encourage remote working and manage the flow of employees within the working space
-  Suspending shared moments for employees and avoid the use of shared tools
-  Respect the standard guidance of health safety such as mandatory face masks for employees, frequent cleaning and disinfecting surfaces, equipment and furniture or physical distancing measures between workers



1. Data from INSEE
2. Covid-19 Safety Measures from the French Ministry for Labour and Employment

Case Study: Italy

Covid-19 Context	% death*	% cases*	Incidence rate since 2021	Lockdowns	Industry forced to close
*% of total population	0.15%	4.3%	315.3	- March 2020	- No (partially due to low commercial activity)

Context

Government imposed a lockdown in the whole country between March'20 till end of May'20 and over Christmas and New Year yet some industrial sectors were exempted such as: plastics, paper, aluminium, chemical producers... Measures were implemented to safeguard the manufacturing companies: tax exemptions for companies with revenues up to EUR250Mn in the fiscal year 2019; non-repayable of loans; ban on firing employees for economic reasons. Italy is expected to receive 3.4m doses of Pfizer vaccine in the second half of January'21 and a significant number of Italians who want to be vaccinated will receive their shots by next September as declared the Italy's special commissioner for the virus emergency.

Overview






After a quasi stable GDP between 2018 and 2019, the Italian GDP fell by 5.81% in the first quarter of 2020 and 12.99% in the second quarter due to the shutdown of some industries which led to a negative impact on the Italian Economy. June onwards, measures were lifted cautiously, which led to an improvement in GDP by 15.89%.

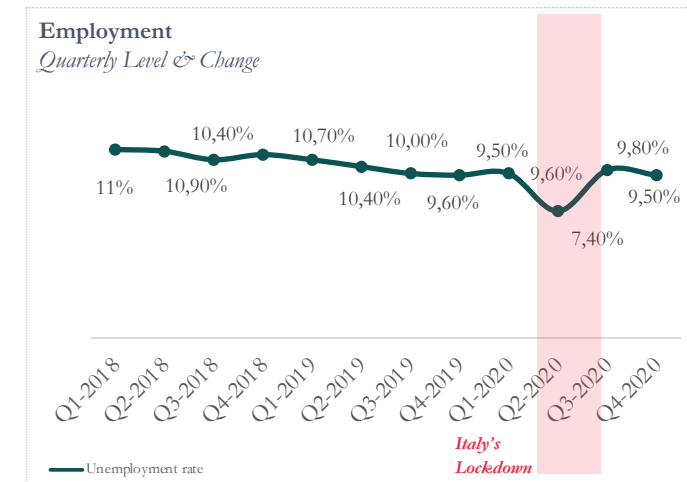
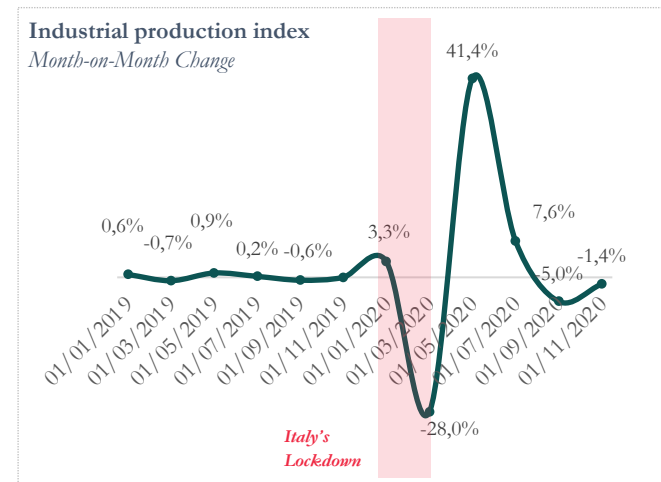
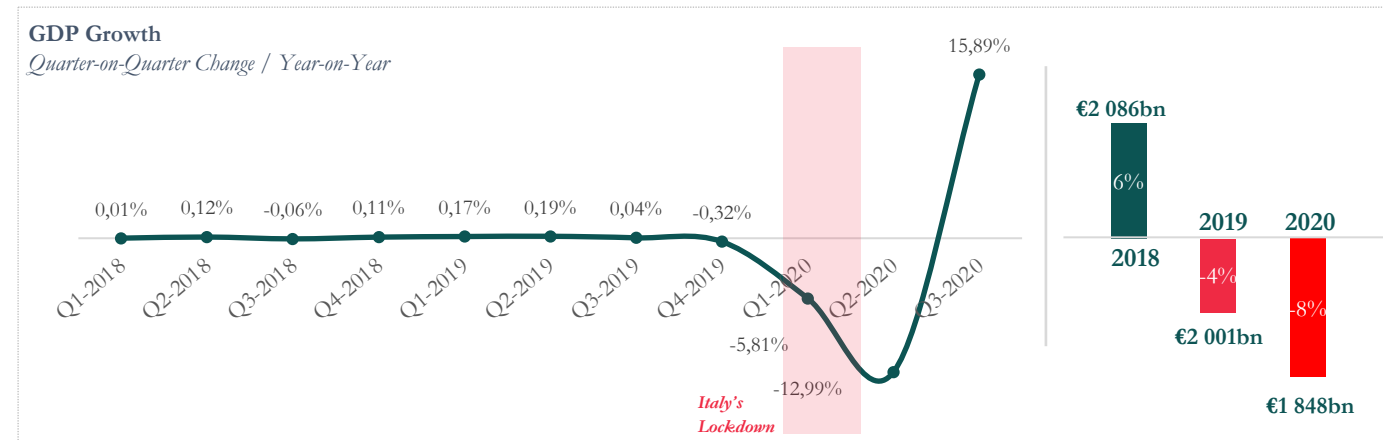
In the first 2 quarters of 2020, industrial production in Italy witnessed a significant decrease due to the impact of coronavirus. In particular, industrial production index dropped by 28% in March, whereas from June onwards, this figure improved with the easing of the restrictions.

Unemployment rate is calculated based on people actively looking for a Job. The ratio was ranging between 9.5% and 11% in the last 2 years yet it plunged in the second quarter, as people stopped looking for work, and reached 7.4% before rising in the following months as Italians returned to the labour market when some restrictions were relaxed.

Overview of the measures to fight the Covid-19 specific to the industrial sector

To allow manufactures to keep running, Italian authorities have implemented a series of protocols and measures to ensure the health and safety of employees of which:

-  Temperature check, sanitizing the workplace on daily basis, employer entitled to make changes in the production lines by changing shifts and minimizing personal contacts
-  Planning the access of third parties (Supplier/Client) to minimize the contact with the workers and drivers will stay in the vehicle when loading and unloading the goods
-  Promoting teleworking for administrative/management positions
-  In common and recreational areas, only small groups are allowed with proper ventilation
-  Respect social distancing and the use of appropriate personal protective equipment which comply with the WHO's requirements



1. Data from Statista
2. Covid-19 Safety Measures from the International Labour Organization

Case Study: Germany

Covid-19 Context	% death*	% cases*	Incidence rate since 2021	Lockdowns	Industry forced to close
*% of total population	0.07%	2.7%	265.8	- March 2020 → - No - November 2020 → - No	- No - No

Context

The industry is at the heart of Germany's strong export performance. The country is a world leader in many sectors, such as vehicle manufacturing, mechanical and plant engineering, and chemicals and pharmaceuticals. The 1st lockdown that began on the 22nd March and ended on 19th April 2020 was less restrictive than other European countries. During the 1st lockdown, German authorities gave all factories the option to stay open through the pandemic. A partial lockdown was announced on the 2nd of November and is still going on until today. Hotels, theatres, opera houses, concert halls, sports facilities, sporting events, restaurants, pubs, bars, clubs, beauty salons were all closed. Factories are still operating. Employers ensure a safe working environment for the employees. As of January 20th, 1.297.430 persons were vaccinated since December 27.

Overview






Germany's GDP grew by a record 8.5% during the 3rd quarter compared to the 2nd quarter. The rebound followed a 9.7% contraction in the second quarter and was mainly driven by higher household spending and increasing exports.

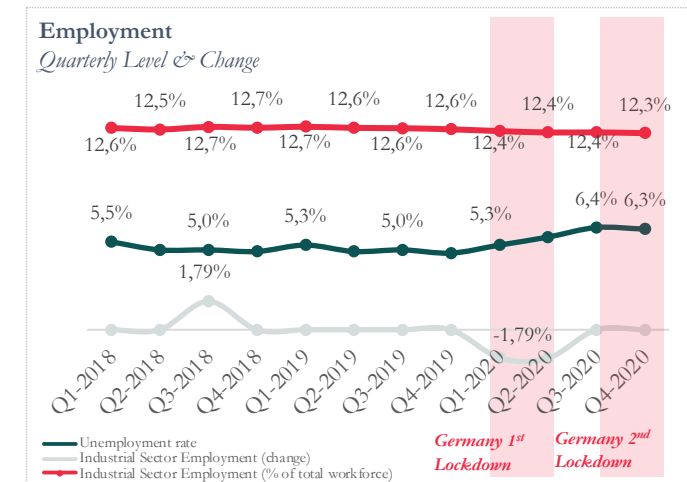
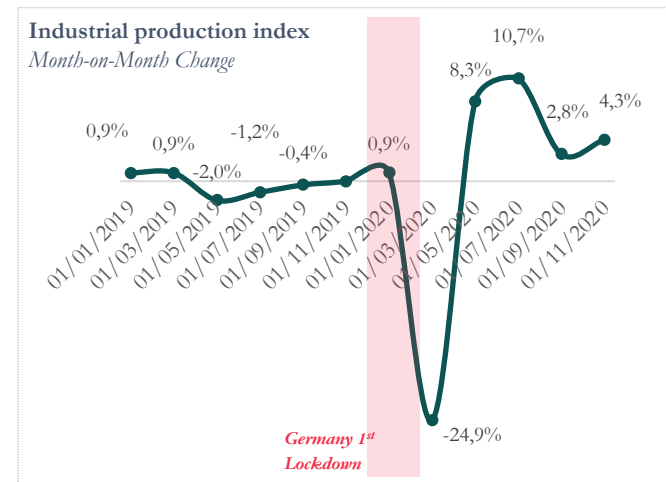
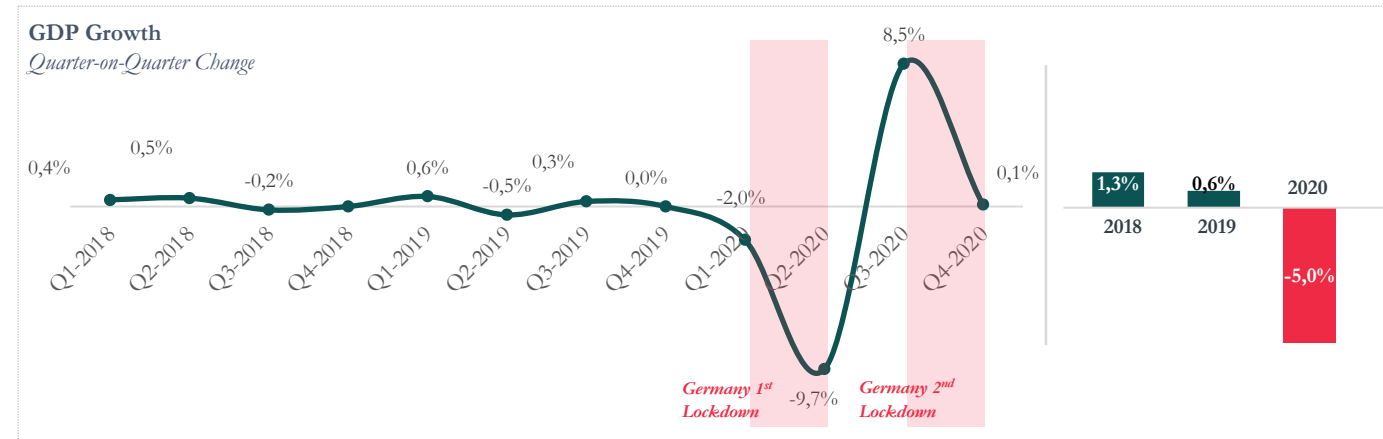
The industrial sector constitutes around 12.5% of the total employment rate in Germany. The number of persons employed in industrial sector declined from 5.6M in the 1st quarter of 2020 to 5.5M in the 2nd, 3rd and 4th quarters of 2020. The decrease is due to the 1st lockdown, however even with a lockdown during the 4th quarter, the unemployment rate in this sector was stable and not affected because factories were operational.

Industrial production index was affected during the 2nd quarter of 2020. During the 2nd lockdown, the production rate was not affected and the demand increased over time.

Overview of the measures to fight the Covid-19 specific to the industrial sector

To allow manufacturers to keep running, industries have implemented a series of protocols and measures to ensure the health and safety of employees of which:

-  All employers must implement a hygiene concept on the basis of an adapted risk assessment and company pandemic planning in view of the increased number of infections.
-  Processes are to be organized in such a way that employees have no direct contact with each other if possible. This applies in particular to shift changes and break times.
-  Wherever feasible, working from home should be facilitated.
-  Employees are obliged to report any immediate, significant health hazard they have become aware of.
-  Respect the standard guidance of health safety such as mandatory medical face masks for employees, frequent cleaning and disinfecting surfaces, equipment and furniture or 1.5m physical distancing measures between workers. Employers are required to provide medical masks to employees where working with other employees is required.



1. Data from Destatis
2. Covid-19 Safety Measures from the German Federal Ministry for Labour and Social Affairs



Case Study: United Kingdom (UK)

Covid-19 Context	% death*	% cases*	Incidence rate since 2021	Lockdowns	Industry forced to close
*% of total population	0.16%	5.8%	440.0	- March 2020 → - No - December 2020 → - No - January 2021 → - No	- No - No - No

Context

The UK confirmed its two first 2019-nCoV (now COVID-19) infection cases, following France and Germany, on 31 January 2020 and has since then been witnessing an increase in coronavirus cases. On 30 March 2020, the UK Department of Health has declared the Wuhan coronavirus outbreak as a serious and imminent threat to Britain given the number of confirmed COVID-19 global cases rising across the world with 19,784 cases reported in England, Scotland, Wales, and Northern Ireland and 1,228 deaths. The UK government being on alert has taken several forceful measures such as: adding Italy to Category 2 countries so that travellers coming from Italy must self-isolate, announcing several nation-wide lock-downs (all non-essential stores, places of worship, gyms, libraries and playgrounds were closed). Regarding the impact on the UK economy, across all industries of business currently trading, 48% experienced a decrease in turnover as of end November 2020.

Overview

As expected, the British economy experienced a significant shock since the start of the pandemic. Indeed, after a steady GDP over 2018-2019, the GDP declined by -3% in the Q1-2020 then registered a sharp and unprecedented decline of -18.8% in the second quarter given large broad-based falls in output for production, services and construction. The third quarter of 2020 witnessed a record growth of +16% as activity was boosted by the progressive easing of COVID-19 restrictions (pubs, restaurants, hairdressers and some other services sectors), the “Eat Out to Help Out” scheme, etc. During H1-2020, the industrial production index oscillated between -1.2% and +1.2% since the coronavirus’ impact varied from business to business. Indeed, some industrial manufacturing businesses have been able to adapt effectively. In this context, unemployment rate rose to 4.8% in Q3-2020. Consequently the industrial sector employment rate reported successive decrease since second quarter of 2020.

Overview of the measures to fight the Covid-19 specific to the industrial sector

In order to support the industrialists and encourage their ongoing businesses, the UK government is working closely with Business Representative Organisations and Trade Associations to implement a series of protocols and measures to ensure the health and safety of employees of which:



Workstations are assigned to an individual and not shared. If they need to be shared they should respect the following: use floor tape or paint to mark areas to help enforce social distancing guidelines, use of screens to separate people from each other, use floor signage, holding meetings outdoors or in well-ventilated rooms.



Implement organisational measures to avoiding crowded spaces by managing occupancy levels enabling social distancing



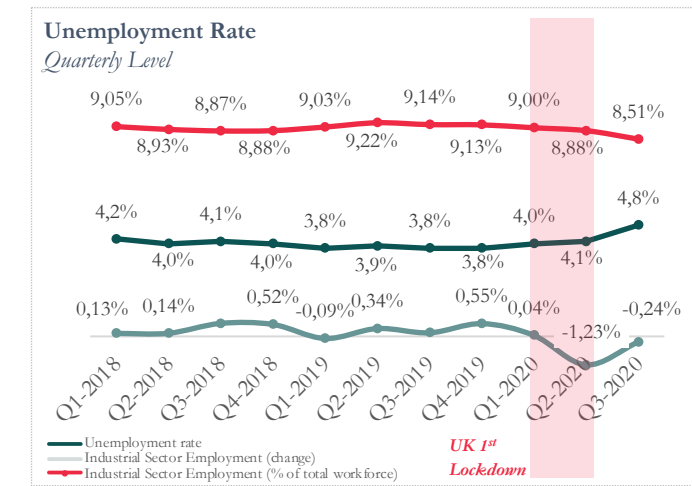
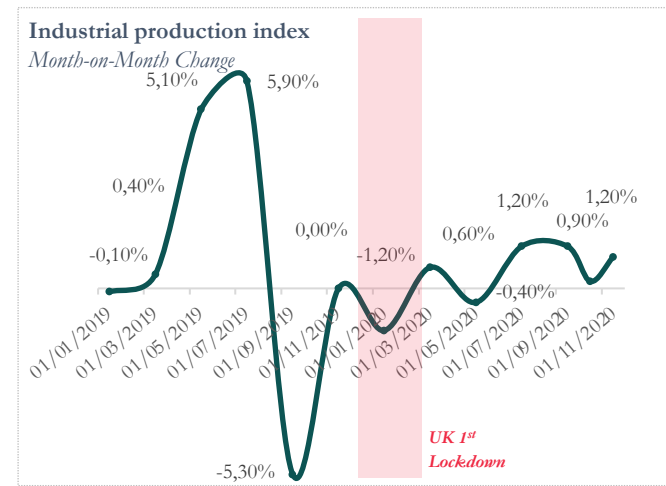
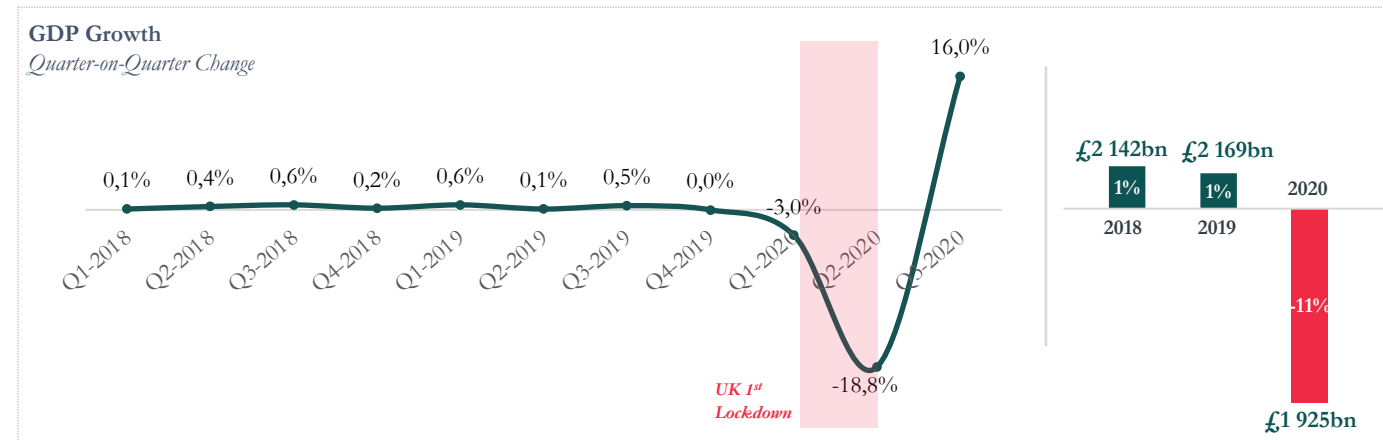
Suggest remote working to avoid in-person meetings and free parts of the workplace or building to create additional space in offices and common areas



Avoiding transmission during meetings for example sharing pens, documents and other objects.



In addition to the standard guidance of health safety (hand sanitiser, face masks, social distance, surface cleaning and disinfecting, etc.), companies also provide a Personal Protective Equipment (safety helmets, gloves, eye protection, high visibility clothing, safety footwear and safety harnesses and also respiratory protective equipment.



1. Data from Office for National Statistics & Labour Force Survey
2. Covid-19 Safety Measures from Her Majesty's Government

Case Study: Lebanon

Covid-19 Context	% death*	% cases*	Incidence rate last 7 days	Total Lockdowns	Industry forced to close
*% of total population	0.05%	4.39%	312	- March 2020 - January 2021	→ - No (except first 10 days) → - Yes

Context

At the beginning of the pandemic in Q2 & Q3 2020, Lebanon handled well the crisis having low daily cases reported (between 0 to 100 cases). The government had imposed a total lockdown from March'20 to April'20. At the beginning of this first lockdown, measures included the closure of all businesses (except some of the vital industries) and all public location such as universities, sports clubs and restaurants. Following this total lockdown, the Government approved a set of recommendations put forward by the Association of Lebanese Industrialists, relating most notably to allow this sector to continue to function during the lockdown, conditional upon abiding by COVID-19 health and safety guidance and national curfew hours. After, the Beirut port explosion in August 2020, cases started to increase with more than 1 000 daily cases. Following the Christmas holidays, and a controversial decision to keep everything opened, COVID-19 cases highly increased (peaking at +4750 daily cases) which resulted in the announcement of a total lockdown beginning of 2021 to prevent the collapse of the healthcare system.






Overview

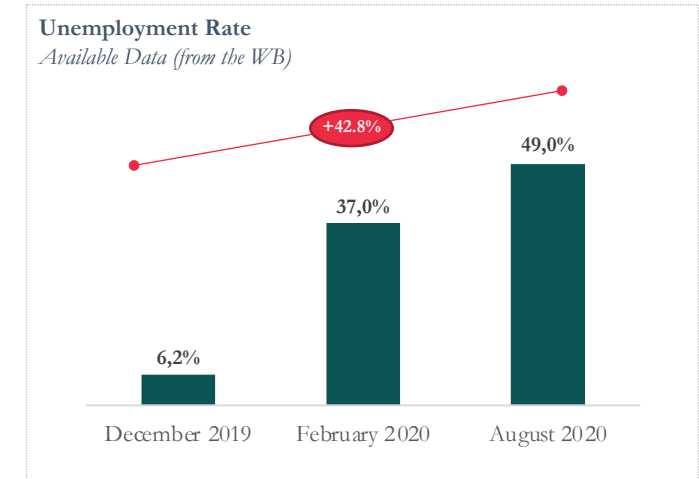
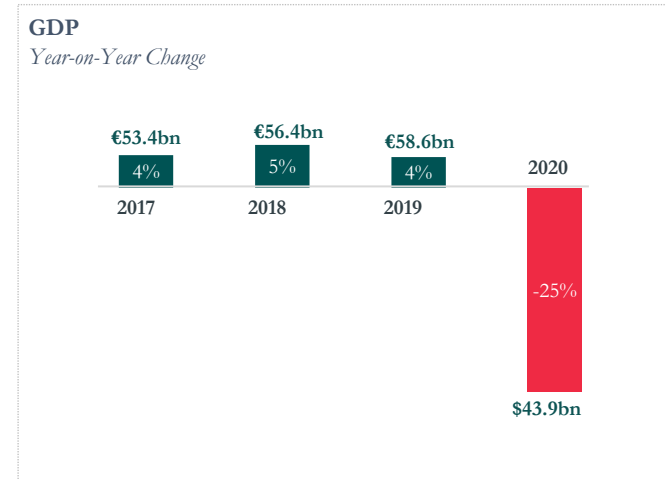
Lebanon, long considered a middle-income country, is rapidly sinking into poverty as it faces a quadruple shock from the Beirut port explosion; hyperinflation and an economic crisis; currency devaluation; and the impact of Covid-19 on employment and public health. It is also at the forefront of the Syrian crisis: as of 31 August 2020, the massive influx of refugees has placed a significant strain on existing resources.

According to the IMF estimates, the GDP declined by -25% in 2020. The private sector activity, captured by the BLOM-PMI index, reached its lowest historical level ever recorded. The manufacturing sector, which provides jobs for 194,000 workers, has witnessed a series of negative shocks since October 2019. Despite the relaxation of strict measures, the Covid-19 crisis could not but worsen the situation in an already fragile cash-strapped sector that is unable to meet its import needs. Furthermore, while this sector has played a key role in the production of Covid-19 related protective and medical equipment, it continues to face a bumpy road with limited access to financing of raw materials, rising costs and weakened demand, exacerbated by the closure of a large number of establishments and enterprises.

Overview of the measures to fight the Covid-19 specific to the industrial sector

On April 17, 2020 the UNIDO in partnership with the Ministry of Industry has launched safety guidelines developed for the industrial sector.

-  Laundry cleaning and waste disposal & cleaning and disinfection in industries for Covid-19
-  Organizational measures for industries and screening industry employees and visitors for Covid-19 symptoms or exposure
-  Receiving, transport and delivery of products
-  Physical distancing in the industrial work environment
-  Respiratory hygiene guidance and proper usage of face masks/coverings & proper usage of disposable gloves



What are the takeaways to be applied in Lebanon?

Our study shows the importance of the industrial sector in the economic activity of these leading European countries: France's industrial sector contributes to 12% of total GDP in 2020 with a workforce accounting for 16% of total employment, Italy 21.4% of GDP with 25.6% of total employment, Germany 29.1% of GDP with 12.3% of total employment and the UK 17.4% of GDP with 8.51% of total employment. To secure employment and ensure stability in the supply of industrial products by avoiding the collapse of their industry, these countries have all learnt from the first lockdown experiences of March'20. They have all chosen to keep the manufactures operating at a quasi-normal level. To do so, they implemented relatively similar tax, financial and safety measures across all the industries. The financial measures are hardly applicable in Lebanon, given the financial and economic situation of the country. However, Lebanese manufacturers could keep operating while ensuring the security of their employees by implementing safety measures. **To save our industrial sector, we propose the following action plan:**



Safety Measures

- Implement the UNIDO guidance on safety for the industrial sector
- Respect the standard guidance of health safety such as mandatory face masks for employees, frequent cleaning and disinfecting surfaces, equipment and furniture or physical distancing measures between workers;
- Prepare the sites and offices to host employees safely;
- Implement organisational measures such as: avoiding crowded spaces by staggering working hours;
- Encourage remote working and manage the flow of employees within the working space; and
- Suspend shared moments for employees, avoid the use of shared tools and ensure the conformity and proper functioning of ventilation systems.



Additional Measures Proposed by ALI

- The industrialists, at their expense, will carry out periodic PCR examinations for the workers of their factories and secure vaccines for them when the conditions for importing the vaccine permit;
- On top of mandatory medical masks, the use of medical gloves whenever possible, as well as alcoholic gels for frequent disinfection of hands;
- In function of the threat level (red, orange, yellow), the Industrialists will adapt their daily production capacity within ranges from 30% to 40% to 50%, 24/7;
- Aprons, gowns, coveralls to be worn by employees when applicable; and
- For Financial/Admin employees: work from home while implementing "data on cloud" to allow access to all files from everywhere. Printers and Internet bandwidth paid by employer, whenever possible.



Cedar Oxygen Commitments

- Usage of the digital onboarding platform by potential borrowers, allowing them to submit their financing application and documents at the click of a button on CedarO2 online platform;
- All files that are completed will then be reviewed and approved/rejected on a weekly basis by CedarO2 investment and credit committee and financing lines made available immediately after the legal documentation is completed and contracts signed electronically;
- During the onboarding process on its digital platform, Cedar Oxygen will support remotely the finance/admin industrialist teams to implement "data on cloud" processes and allow access to all files from everywhere.

Conclusion



Like the rest of the world, Lebanon is struggling to cope with the Covid-19 pandemic. The country has been in a state of emergency since mid- March 2020 in response to the pandemic and is one of the few countries that is going through a third national lockdown/curfew. The situation is compounded by the fact that the pandemic emerged during Lebanon's worst economic and financial crisis in its history, which is resulting in a deep social and political crisis.

The multiple crisis Lebanon is facing since 2019 have led to a GDP collapse (-25% in 2020) and burgeoning unemployment and poverty (49% of total population is currently unemployed and 50% of the population is expected to live under the poverty line). The economic contraction and reduction in global supply and demand as a result of the pandemic is likely to affect Lebanon's ability to overcome and recover from the multiple crisis it is grappling with, not only in the short term but in the medium term as well.

In this context, the Industrial Sector stands as the sole value creator for the Lebanese economy and should be considered as the key foundation for its recovery, providing +190 000 jobs which consists of 24% of local work force in 2019 and generating in 2018 +\$5bn added value to the GDP.

Closing the Industrial sector, the heartbeat of the economy, would be equivalent to putting the country in a prolonged induced coma, with no prospects for better days in sight.

Research Prepared by:

Jean-Marie Khoueir
Senior Investment Associate
jean-marie@cedaroxxygen.com

Elias El Hage
Credit Manager
elias@cedaroxxygen.com

Cindy Kamyum
Credit Analyst
cindy@cedaroxxygen.com

Céline Abboud
ESG Analyst
celine@cedaroxxygen.com

Contact

Alexandre Harkous
Chairman
+33 6 80 59 75 43
alexandre@cedaroxxygen.com

Karl Naïm
Managing Director France
+33 7 89 48 02 66
karl@cedaroxxygen.com

Wissam Ghorra
Business Development Manager
+ 961 3 765 764
wissam@cedaroxxygen.com



Economic Recovery Platform for Lebanon

جَمْعِيَّةُ الصَّنَاعِيِّينَ اللَّبْنَانِيِّينَ
ASSOCIATION OF LEBANESE
INDUSTRIALISTS



Our membership signifies a commitment to deepening our engagement in the impact investing for Lebanon to cause a net effect in governance, improve the well being of society as well to promote beneficial changes to the environment