

26/02/2020

## Coronavirus infecting the Italian industry

*The forced stop in the activities of companies as Pirelli, FCA, Italdesign and Armani shows the weaknesses of Italian system. What are the risks in the long period? Alessandro De Felice, President of ANRA (Italian Association of Risk Managers) analyses the situation in this interview published on Italian magazine "Industria Italiana"*

Pirelli closes in China, while FCA forced to stop the 500L line in Serbia for the shortage of components, Italdesign freezes Italian production as a precaution and Giorgio Armani does the same in a different sector. Last days, Coronavirus quickly became an issue also for Italian industry. *"A longer and wider interruption of production in Italy, considering the medical bulletin becoming more severe, is a tangible risk, but the Chinese block has already caused damage to our manufacture, more or less serious depending on how strong is each business link with the oriental country"*, says Alessandro De Felice, president of ANRA and Chief Risk Officer of Prysmian Group.

*«More serious damages are expected for those who have outsourced, completely or in part, to Chinese suppliers, and for those who have branches to serve the local market. It is a fact, not a risk anymore. A fact that cannot be ignored, and that's why companies are already doing the simulations necessary to calculate the potential impact on the balance sheet of a more or less prolonged stop in China and Italy. In addition to potential countermeasures to deal with it whenever possible».*

### Who stops and where

According to Italy China Foundation, the main problem for the industrial part is represented by "the contraction of consumption and the interruption of industrial production lines (in China), which in many cases has lasted more than 15 days. Factories are gradually reopening these days, but it is not currently possible to predict the extent to which production rates will return to normal".

All this will have an impact on the Chinese economy, while, as regards Italy *"in addition to the negative impact on the 13 billion euros of exports, it should be considered that in Greater China which includes Hong Kong about 2000 investee companies operate by Italian companies, therefore the interruption of production in these days will not fail to reverberate on their income statement in China and Italy. To these are added the over 600 companies operating in Italy with Chinese investors who will inevitably suffer direct consequences "* adds De Felice.

Meanwhile more and more Italian industries announce their stop. Pirelli, for which China accounts for 12% of total sales, has suspended operations in two of the three factories in China, where at the moment only the Car / Motorcycle factory in Yanzhou operates at a reduced pace. FCA instead announced the possible closure of the factory in Serbia where the 500L is produced because it no longer receives the necessary components to power the line. The Italian assembly plants in Melfi and Pomigliano d'Arco are now fully operational, but the situation is changing day by day.

Furthermore, a few hours ago the news of the provisional stop of all the production activities in Italy of Italdesign (Volkswagen group) as an employee of the Nichelino plant was tested positive for the virus. In a different sector, Giorgio Armani decided to close the Milan offices and production sites located in Lombardia, Emilia Romagna, Veneto, Trentino and Piemonte for a week. The closure of the world's factory affects the entire world supply chain: in particular, the city of Wuhan alone - the epicenter of the spread of the pandemic - is a very important distribution and supply hub in the global hi-tech and automotive sector. Now, the spread of the virus in Italy doubles the firepower of potential damage.

## **Specific risks for Italian industry**

More specifically, says De Felice: «*There are three types of Italian production that can suffer a negative impact from this situation: the first is that of companies that receive components from China, such as the automotive sector, which risk having to stop production also in Italy as a consequence of the Chinese stop. This typology is probably the most difficult today because everything in China has stopped since the end of January and there is a delay accumulated on the lines of at least two weeks, which also extends to the companies that have left but whose logistics continue to not be regime. These companies that produce in Italy, but whose lines depend on the components arriving from China, may find themselves forced to close, even if they still have the opportunity to save themselves by finding alternative suppliers. The second category, on the other hand, is the one most exposed to the crisis: those companies that have relocated to China and produce everything there and then import to Europe and Italy. In this case, the entire logistics chain is at the heart of the pandemic. And the production suffers from a delay of two to three weeks from which a real meltdown can arise*».

Finally, the third group dealing with major risk is the one of companies that have branches in China and make production for the local market: "*for them the negative impact will be only partial and geographically limited*", adds De Felice who invites to consider that these losses are already a fact: «*We are not talking of risk anymore, it's a certainty: it is only a matter of counting the damages. For sure the emergency and business continuity plans have already been started by the companies that had them. But disaster recovery policies can only be put in place if there is structured risk management, they cannot be improvised*».

## **Italy: caution, but no panic**

From 21 February, when first corona virus cases were found in the country, the alarm quickly grew in Italy, but at the moment: «*service and back office companies have resolved with remote working and continue to operate. Certainly for those who make production it is alarm because in this case the factories can be blocked by authority, as happened in China. However, the impact for the Italian industry is to be assessed, it is necessary to see if the containment measures implemented by the government succeed in limiting the outbreaks in the areas in which they originated. If the epidemic spreads beyond the Municipalities concerned today, it will certainly have impacts on productivity, expected profits and corporate finance* " says De Felice.

«*We have no evidence to speak today of numbers and it would be terrorist to make predictions of what could happen to production in Italy. The outbreak areas are certainly located in a highly productive fabric but they do not have a weight to block the economy of the North: I certainly expect that a zero point of GDP will be lost on the street, but we must wait to know the size of the problem to say more about the drop in industrial production. At this stage, efforts are still being made to understand how and how widespread the disease is and what this will make those who have to decide. Then you can make estimates of industrial losses*" adds De Felice.

## **Risk Management rule: learning from a crisis**

Trying to look further, De Felice believes that something good can arise from this crisis. «*There are interesting side effects: for example, it may happen that what does not come from China we start to produce it here. It would be a downside with a positive impact on production. Many companies have had an opportunity precisely because the Chinese production chain has stopped.* " Without considering that the forced experiment of remote working can be so successful as it creates a spontaneous diffusion of something that has so far been opposed by the workers themselves. After all, unexpected opportunities can arise from every crisis.