

Red Alert for Heavy Air Pollution in Beijing

The Beijing Municipal Emergency Management Office issued the red alert for heavy air pollution at 6:00pm on December 7, listing emergency measures that will take effect between 7:00am on December 8 to 12:00pm on December 10.

This red alert for heavy air pollution issued in Beijing is unprecedented.

Emergency measures during this red alert period include:

Mandatory emergency measures:

1. Use of private vehicles is restricted based on even- and odd-numbered licence plates across the city (with all-electric vehicles excluded). Additionally, 30% of the government cars are kept off from the roads; and public transport operators are extending working hours to provide more capacity.
2. Operation of heavy vehicles including construction waste & residue trucks, concrete tank trucks and gravel trucks are suspended.
3. Outdoor operations are banned on construction sites.
4. Cleaning on key roads is being stepped up to reduce traffic dust pollution.
5. Fireworks and outdoor barbecue are prohibited.
6. Implement suspension or limited production measures based on the list of industrial enterprises to suspend or limit production in case of red alert for heavy air pollution.

Recommended emergency measures:

1. Kindergartens, primary and middle schools are advised to suspend classes; enterprises and public institutions may implement flexible working hours based on the air pollution level.
2. Large outdoor activities or events are banned in principle.

By now, Beijing Municipal Commission of Education has circulated the Notice on Implementing the Measures in Case of Red Alert for Heavy Air Pollution, saying that emergency measures should be strictly followed and primary schools, middle schools, kindergartens, Juvenile Palace and outside educational institutions should suspend classes. Flexible working hours have also been adopted in many enterprises.

Why Businesses Should Be Concerned?

If conditions persist or worsen, businesses with outdoor operations will continue to be compelled to suspend operations. Some enterprises can be significantly affected, particularly where suppliers reduce their workforce or business activities. Businesses in the tourism industry may also see declines in revenues as foreign visitors stay away from the region. Retail and F&B businesses may also be affected, especially for those offering outdoor experiences.

Prolonged smog conditions can take a toll on employees' health which may result in a rise in absenteeism and reduction in productivity. With poorer visibility, there is a heightened risk of accidents taking place, potentially resulting in injuries or even property damage.

Marsh has been monitoring this situation closely. Based on our experience and expertise supporting clients' efforts to manage the risks and impacts associated with this and similar events, we offer some recommendations for organizations:

Workforce Safety Measures

- Provision of PPE (Personal Protective Equipment) such as face masks at point of entry into construction sites / open areas.
- Use of electric air purifiers where available, especially in areas where people tend to congregate.
- Ensure good ventilation in both indoor and outdoor working environments. Usage of fans even in outdoor working areas can improve air condition within the working area.
- Companies are recommended to regularly check on governmental updates and announcements and test their 'call trees' (internal telecommunications chain for notifying specific individuals about an event) to ensure that they are functional. This is useful for companies which do not have an automated voice system. Upon removal of the 'red alert', ensure that employees can be reached and that they can return to work within a 4 hour timeframe.

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- Crisis Management Plan (CMP) should have a section on 'crisis communications' which is one of the key areas of focus in scenarios like these.

Risk Management Controls

- Defining and communicating achievable and measurable objectives in terms of minimum production and/or service levels, taking into consideration potential impact on customers and business partners.
- Establishing plans that enable the organization to prioritize critical activities with the aim of continuing, recovering and resuming operations, where appropriate.
- Monitoring developments via media reports and government advisories, assessing the situation and devising appropriate responses to mitigate impact on human capital, reputation/goodwill, business value-chain, and finances.
- Implementing strategies that mitigate supply chain disruptions, for example, sourcing for inbound materials from multiple suppliers and shipping locations, or identifying substitute products and services.

Human Resource Policies

- Regularly communicating with employees to provide assurance that workers' health and safety are of paramount importance, and that the company will take measures to safeguard them.
- Flexible work arrangements and telecommuting which will allow staff to reduce the need to travel and expose themselves to pollutants outdoors. Leveraging technology as enablers to support employees performing essential activities such as providing devices and gadgets to

facilitate access to email, vital records, and files, or re-designing critical tasks to reduce reliance on manpower.

- Maintaining adequate stockpiles of particulate respirator masks and distributing them to employees and their families.

Crisis Management

- Regularly communicating with clients and business partners to devise and refine contingencies and workaround measures to protect critical supply-chain processes.
- Preparing in advance for crisis communications, to facilitate smooth execution in the event they are needed.
- In situations where prolonged interruptions occur, steps should be taken to notify stakeholders. Scripts on what to say to stakeholders should also be inside the CMP.

Insurance implications

Traditional Business Interruption policies are not currently set up to respond to the type of indirect losses arising from the smog pollution.

- Insurance markets for photochemical smog (especially in Beijing) are extremely rare, and very unlikely.
- There are customized CBI products which are provided by the reinsurance markets which may cover for these events. One example is coverage for an airline company which was affected by a volcanic ash incident a few years ago.
- Rates are relatively high and minimum premium starts at EUR100k.
- Time deductibles are also high.

If you have any questions about insurance, please contact your Marsh representatives.

Please be advised to monitor up-to-date developments on the Beijing municipal website, www.beijing.gov.cn.

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