

Global Losses From Tomatoes Likely Pricey

The multibillion tomato industry in North America is in disarray as U.S. regulators struggle to determine the source of a Salmonella Saintpaul outbreak that has so far sickened roughly 228 people across 23 states.

The delay in finding the source has meant significant business disruption for U.S. tomato growers and distributors, and to some extent, their counterparts in Canada and Mexico, whose produce are consumed in the United States.

Insurance claims from this event are expected to be widespread throughout North America, experts say. Also the length of time the government restriction on tomato consumption remains might impact the severity of claims.

For distributors, restaurants and supermarkets that have crates of tomatoes perishing in storage, it's crucial that the ultimate source of the contamination is determined in a timely manner.

"Normally, each person looks one step down the chain as to who supplied them with the product. The retailer is going to the distributor, the distributor will look to the wholesaler or farmer. Each person goes down the chain to see who is ultimately responsible and where they can get some sort of subrogation," says Bernie Steves, a senior vice president with Chicago-based Colemont Insurance Brokers.

The most common claims from contamination outbreaks are physical injury claims. That is, consumers sickened by the food-borne illnesses usually seek monetary damages to compensate for their injuries. Businesses also bear significant losses in the event a recall is issued. In some cases, consumer refunds are issued. Entities in the distribution chain almost certainly lose anticipated profits.

Joseph Bermudez, leader of the food contamination coverage practice at the law firm of Cozen O'Connor, said there's been a trend towards larger and more expensive outbreaks recently. "The outbreaks we've seen in the last couple of years are not just in small towns or in one city, but we're seeing outbreaks that are regional and international," said Bermudez.

In December of 2006, an E. coli outbreak linked to Taco Bell restaurants left more than four dozen people sick in at least three states, creating a major damage-control crisis for the fast-food chain. Also, an E. coli outbreak from tainted spinach in September 2006 affected 26 states (*BestWire*, Dec. 11, 2006).

The ongoing Salmonella outbreak, for instance, is suspected to have originated from imported tomatoes, possible from Mexico, although authorities haven't been able to confirm it.

Bermudez said when there are different countries and different regulations involved in a food distribution system, the risks are higher, and the claims process is often more complicated.

Salmonella Saintpaul by State of Residence

Since April, 228 persons infected with Salmonella Saintpaul have been identified in 23 states:



■ Arizona (19 persons), California (2), Colorado (1), Connecticut (1), Florida (1), Georgia (1), Idaho (3), Illinois (29), Indiana (7), Kansas (5), Michigan (2), Missouri (2), New Mexico (55), New York (1), Oklahoma (3), Oregon (3), Tennessee (3), Texas (68), Utah (2), Virginia (9), Vermont (1), Washington (1), and Wisconsin (3)
Source: Centers for Disease Control and Prevention

"It definitely creates risks that weren't there for someone who was merely dealing with a ranch or farmer down the street," he said.

Still underwriters serving the food industry have gotten better dealing with the complexities of contamination risks and the food distribution systems. They put heavy emphasis on quality control plans, and scrutinize batch sizes and batch values in order to determine the value of a potential recall, says Steves.

Also, the insurance companies have evolved from the traditional risk reaction role to more of a risk prevention role. That's why insurers these days generally offer contamination coverage as a package.

"Not only are you getting an insurance policy but you're getting a team of consultants to assist you in managing your risk both on a pre-incident and on an emergency response basis," Steves said.

As a broker who specializes in food contamination and recall coverage, Steves said he's seen a dramatic increase in the number of first-time buyers of the coverage.

"I think that has a lot to do with the number of incidents. It's not just the media perception, but there've been some high-profile cases of contamination and product recalls. That has certainly raised the public's perception and concern of these situations," he said.

Steves said businesses now see a big event and realize the same circumstances could apply to them.

"So, whenever there's a big media event like this one there's certainly a flurry of activity that goes along with that," he added.