



**A balanced diet
for your
balance sheet**



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Consumers are getting particular about where their food comes from, how it was grown and how it reached them. **Ms Penny Seach** and **Ms Sheri Wilbanks** of **AIG** say this affects agricultural producers, including the supply chains, increasing the effort required by them to certify the nature of their produce.



Ms Penny Seach



Ms Sheri Wilbanks

“**Y**ou are what you eat” is an oft-quoted tag line to convince consumers that making good food choices will keep them healthy.

It's no wonder that many consumers are paying more attention to where their food comes from, how it was grown, and how it reached them. Depending on where you live and what you want to eat, your food supply chain can be short or long, straight or tangled.

Residents of the Gold Coast in Australia have access to fresh fruits and vegetables direct from neighbouring farms. Citizens of New Zealand enjoy fresh milk almost from the adjoining field. And in the Philippines and Malaysia, the new trend of drinking hydrating coconut water is not new at all.

Bringing these types of agricultural products to other consumers has always required effort, but even more so now that consumers desire products free from chemicals, grown in a sustainable manner, and cultivated with fair labour practices.

The marketplace has developed methods for relaying to consumers the “other” important qualities of their product with certifications of organic, fair trade, and sustainability, making already complex supply chains ever more tangled.

New choices, new challenges

A decision by a farmer to choose a particular crop or certification is not to be taken lightly – indeed this often involves both the heart and the head as farmers are faced with weighing the need to earn a profit against an altruistic calling to protect natural resources or provide the healthiest of food. The consequences of the choice may result in liabilities and risks arising which are different from those they had previously understood.

Recently in Western Australia, an organic canola farmer and a genetically modified (GM) canola farmer with adjoining properties found themselves on opposite sides of a courtroom. Organic farmer Steve Marsh is suing his neighbour, Michael Baxter, after GM canola was found in his fields, resulting in the loss of his organic certification.

Issues with crop drift are not new but historically those affected have taken action against the patent owner of the offending seed, a Monsanto or Bayer for instance. The precedent-setting case in Australia represents the potential for additional farmer-to-farmer liability cases involving “drift” across buffer zones between farms.

Drifts of pesticides, insecticides, and herbicides are common as well, with potential impacts including not



only loss of certifications but also visible crop damage. Delicate crops, like grapes, often show immediate signs of damage and take several growing seasons to recover. And drift does not only impact edible crops; herbicides can also affect land used for livestock grazing resulting in actual losses to land and the livestock property.

Don't fence me in

With today's global and tangled supply chains, the repercussions frequently extend beyond the farms, to second and third level processors as well as retailers. Agricultural producers must not only think about themselves and their most immediate customers, but also several steps down the supply chain to consider the total impact and expenses.

Likewise, food processors and sellers should also consider the potential risks to their supply chain several steps up. An accurate evaluation of the supply chain exposure in advance of an incident will ensure minimum disruption and ultimately lower direct and indirect expenses.

US organic yogurt and ice cream manufacturers currently find themselves competing for raw materials of short supply, mainly eggs and milk. Increased retailer demand for these raw materials is part of the cause for the short supply, but producers of both raw materials suffer from a shortage of organic feed which is exacerbated by the issues of drift mentioned above. One major US organic yogurt manufacturer suffered "line stopping" shortages without the needed organic milk and the company was ultimately forced to introduce a non-organic line to avoid costly production downtime.

Agricultural operations are not immune from indirect expenses as well, like reputational damage. Producers in New Zealand cited Fonterra's 2013 whey powder recall as having had an impact on their brands, as the safety of New Zealand products in general came in to question and Fonterra was criticised for its handling of the recall.

An ounce of prevention...

Active risk management can ensure those in the agricultural sector and elsewhere are ready to face the growing operational challenges. AIG Risk Consulting performs both product and third party liability exposure analysis as part of global efforts to improve the health and safety of businesses and consumers. An exposure analysis involves:

- Examining the process a company uses to identify their risks and create mitigation measures;
- Evaluating how well a company has identified their risks or exposures, directly and indirectly; and
- Measuring the effectiveness of alternative contingency plans and mitigation measures.

AIG risk consultants are able to apply knowledge of the legal environment and current trends, a global perspective, and best practice sharing between industries to clients




worldwide. Further support can also be provided in the form of online training systems, swift crisis management, and AIG's Product Recall Cost Estimator, NOVI, which enables companies to put a reasonable financial estimate against the impact of a contamination or recall event.

Increasing liabilities and the complexity of our supply chain is likely only to increase as globalisation continues and consumers maintain an interest in the "other" important qualities. With active risk management, an operation is better equipped to handle a crisis as the scenario has already been considered and a plan tested – resulting in less financial and reputational impact. Lack of preparation can cause financial and reputational damages far greater than necessary, even to the point of financial demise.

Get fit, stay fit

For an individual, maintaining good health involves a variety of active risk management techniques, from thoughtful dietary choices to customised exercise plans and identification of existing health risks. Similarly, with AIG's risk consulting solutions and support tools, companies can protect their financial health and even develop an edge over their competitors.

When your business has a strong, forward-looking risk management culture, you will be able to face the future with confidence. Bring on tomorrow. 

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