

Faulty Product Parts Are Covered Damage, Ohio Justices Say

By **Shane Dilworth**

Law360 (March 23, 2022, 9:53 PM EDT) -- The Ohio Supreme Court on Wednesday upheld a ruling that language in an umbrella policy issued to a metal products purchaser was crystal clear on saying that coverage is available for property damage stemming from its sale of a contaminated coloring agent that caused 1,850 tons of bottles to be discarded.



The Ohio Supreme Court rejected the so-called integrated-systems rule in deciding that Motorists Mutual must provide coverage to a policyholder in an underlying suit brought by a glass container manufacturer. (AP Photo/Mike Groll)

In addressing a matter of first impression, the Buckeye State's high court thwarted Motorists Mutual Insurance Co.'s request to adopt the so-called "integrated systems" rule to find that it is not required to defend or indemnify policyholder Ironics Inc. in an underlying lawsuit brought by Owens-Brockway Glass Container Inc.

Under the rule, a defective ingredient in a completed product does not result in covered damage. According to the opinion, the integrated systems rule was originally intended to shield manufacturers from facing tort claims from supplying allegedly faulty products. But the Ohio justices refused to extend the rule's rationale to the insurance coverage context.

Stacy R.C. Berliner of Brouse McDowell LPA told Law360 that the ruling is important since the majority

rejected Motorists' integrated systems rule argument. According to Berliner, who is counsel for Ironics' amicus curiae United Policyholders, the decision is favorable for the numerous component manufacturing companies in Ohio.

"The integrated systems doctrine is a made-up coverage defense not supported by the language of the policy — written by the insurers. The Ohio Supreme Court rejected Motorists' attempts to rewrite the policy post loss and upheld the bargained-for language in the policy, which clearly covered this loss," she said.

Berliner went on to say that applying the integrated systems rule would have rendered coverage under Ironics' umbrella policy illusory.

Ohio Justice Jennifer Brunner, who authored the majority opinion, wrote that the multicomponent glass containers, such as those made by Owens-Brockway, are "ubiquitous and not identifiable as any particular component."

Owens-Brockway used a steel production byproduct known as "tube scale" that Ironics purchased from its materials processor, American Waste Management, to make brown and amber glass containers. The tube scale Ironics sold to Owens-Brockway was contaminated by chrome stones that were present after the substance was spilled by American Waste's subcontractor, Foundry Sand Services.

The authoring judge said that the glass containers made by Owens-Brockway qualified as "other property" distinct from the Ironics-supplied tube scale under the language of the Motorists umbrella policy, which does not cover damage to Ironics' own property.

"Owens' glass containers are likewise property other than Ironics' tube scale. While the property includes Ironics' tube scale, it is the integration of the tube scale into Owens' product that caused the damage — more than 1,850 tons of unusable glass containers," Justice Brunner wrote.

According to court records, Ironics did not become aware that the tube scale it sold to Owens-Brockway was contaminated until after the glass containers were scrapped. Owens-Brockway sued Ironics in January 2017, asserting claims for negligence, breach of contract, breach of warranties, product liability and violation of the Uniform Commercial Code.

The dispute between Ironics and Motorists erupted when the insurer refused to cover the suit brought by Owens-Brockway under a commercial general liability, or CGL, policy as well as an umbrella policy. The insurer then filed suit, seeking a court order saying that it had no obligations under the policies.

A state court judge awarded summary judgment to the insurer and Ironics asked the Sixth District Court of Appeals to review the decision. In January 2020, the appeals court handed down a split ruling finding that the policyholder was entitled to coverage under the umbrella policy, but not the CGL policy.

Motorists urged the Buckeye State high court to reverse the ruling based on the integrated systems rule.

The state's high court rejected the argument, finding that applying the rule would undermine Ironics' reliance on its insurance contract with Motorists.

"The integrated system rule was created to ensure that contract law does not 'drown in a sea of tort,' but no concerns of that sort are presented here. Ironics is seeking to rely on its agreement — invoking its bargained-for right to defense and indemnification — and the only question before the court is whether the umbrella policy covers Owens' claims," Justice Brunner wrote.

The court also concluded that the term "property damage" in Ironics' umbrella policy was clear and unambiguous and that no exclusions in the umbrella policy applied.

Chief Justice Maureen O'Connor and Justices Michael P. Donnelly and Melody J. Stewart joined in Justice Brunner's majority opinion.

Justice Patrick F. Fischer concurred in part and dissented in part, stating that he believed that coverage was available under the CGL policy since it included the same exclusions as the umbrella policy. Justice Fischer also wrote that he disagreed with the appeals court's finding that coverage under the CGL policy was barred by the "economic loss" doctrine, which precludes recovery for solely monetary damages.

Justice R. Patrick DeWine wrote an opinion that concurred only with the judgment, writing that "a straightforward application of the policy language is all that is necessary to resolve the case."

An Owens-Brockway spokesperson declined to comment on the ruling.

Motorists' spokesperson and Ironics' spokesperson, and counsel for the parties, did not respond on Wednesday to requests for comment.

Motorists is represented by Merle D. Evans III and Jack B. Cooper of Milligan Pusateri Co. LPA.

Ironics is represented by Theodore M. Dunn Jr. of Buckley King LPA.

Owens-Brockway is represented by John Siciliano and John K. Nelson of Shumaker Loop & Kendrick LLP.

The Ohio Insurance Institute, amicus curiae for Motorists, is represented by Natalia Steele of Vorys Sater Seymour & Pease LLP.

United Policyholders, amicus curiae for Ironics, is represented by Stacy R.C. Berliner and P. Wesley Lambert of Brouse McDowell LPA.

The case is Motorists Mutual Insurance Co. v. Ironics Inc. et al., case number 2020-0306, in the Supreme Court of Ohio.

-- Additional reporting by Jeff Sistrunk. Editing by Leah Bennett.

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