

October 6, 2021 Bankruptcy Trusts

Honeywell Files Suit Against NARCO Asbestos Trust for Mismanagement of Funds

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Honeywell International, Inc. has filed a claim in the U.S. Bankruptcy Court for the Western District of Pennsylvania against the North American Refractories Co. asbestos victims trust. In the lawsuit, Honeywell alleges the fund's managers are wrongly paying claimants who allege they have suffered injuries related to asbestos exposure.

The lawsuit follows several years of disputes between Honeywell and the trust, which was established to resolve the bankruptcy of Honeywell's former affiliate, North American Refractories Co. (NARCO). Honeywell owned NARCO from about 1979 to 1986. During that time period, NARCO produced asbestos-containing products. Upon filing for bankruptcy, NARCO established the NARCO Asbestos Trust to compensate the individuals exposed to asbestos by its products. Honeywell agreed to help fund the trust based on its previous ownership of NARCO.

To date, the trust has paid about \$523 million in claims, with Honeywell contributing the majority of the funds. Honeywell currently contributes about \$150 million annually to cover claims paid out by the trust. Over the lifetime of the fund, which currently has no expiration date, it is estimated Honeywell could spend about \$2.3 billion funding the trust.

In the lawsuit, Honeywell alleges there has been severe and abusive mismanagement of the trust. Honeywell also alleges the trust has paid out funds to claimants that have not demonstrated any exposure to a NARCO product. It is also alleged the trust has spent an exorbitant amount in administrative costs, compared to other victim funds.

Following Honeywell's lawsuit, the trust administrators filed suit against Honeywell. The trust administrators allege Honeywell's lawsuit is an attempt to evade its obligation to fund the trust. The trust administrators have denied the mismanagement of funds and have attributed the high administrative costs to increased spending on legal fees to combat Honeywell's previous litigation threats.

This litigation may have interesting implications impacting the future management of other bankruptcy trusts. Regardless of the outcome, this lawsuit highlights the importance of meaningful oversight of the asbestos bankruptcy trust system. While the management of victims funds is often under scrutiny, this litigation is a yet another reminder that fund managers need to properly administer the trust and claims so alleged victims can be fairly compensated. We will continue to follow the development of this litigation and provide further updates.