

October 18, 2001

COURT DECLINES TO ENJOIN CONFISCATION OF TRADE SECRETS

(*Philip Morris Inc. v. Reilly*)

The U.S. Court of Appeals for the First Circuit in Boston this week issued a ruling declining to prevent Massachusetts from confiscating trade secrets worth billions of dollars.

The decision was a setback for the Washington Legal Foundation (WLF), which had filed a brief in the case, *Philip Morris Inc. v. Reilly*, urging that the confiscation be enjoined. WLF argued that because Massachusetts is unwilling to pay for the property it is attempting to confiscate, its actions violate the Takings Clause of the Fifth Amendment to the Constitution.

The 2-1 decision rejected an effort by the tobacco industry to prevent the release of detailed list of product ingredients. Those lists have long been closely guarded trade secrets, worth billions of dollars in the case of more popular cigarette brands. WLF has pledged its continued support of businesses seeking to protect their trade secrets from government destruction. It will file a brief at the end of the month in support of the plaintiffs' motion for rehearing of the First Circuit decision.

"The government is entitled to take property by eminent domain to serve a public purpose; but the Constitution requires the government to pay for any property it wishes to take," said WLF Chief Counsel Richard Samp after reviewing the court decision. "The appeals court's holding that no compensation is required whenever confiscation arguably serves some public health purpose would undermine the foundations of private property in this country," Samp said.

The case involves Massachusetts's efforts to obtain a detailed list of additives in each tobacco product sold in the State. The precise ingredients of tobacco products -- which give those products their distinctive flavor, taste, and aroma -- are closely guarded trade secrets. Massachusetts asserts that consumers would be in a better position to make health-related choices regarding use of tobacco products if they knew the precise ingredients of those products. Accordingly, Massachusetts seeks to obtain the trade secret information from manufacturers in order to release the information publicly. The result, of course, would be to destroy the value of the trade secrets.

Last year, a U.S. District Judge in Boston issued a permanent injunction against enforcement of the law, known as the Disclosure Act. The district judge held that the law violated three provisions of the Constitution: the Takings Clause, the Commerce Clause (which prohibits States from enacting measures that impose an undue burden on interstate commerce), and the Due Process Clause (which generally requires that affected parties be given a fair hearing before they are deprived of any property). Massachusetts appealed that decision to the First Circuit, which this week reversed the district court.

In its brief, WLF addressed only the Takings Clause issue. WLF argued that Massachusetts's action should be subject to *per se* takings analysis -- under which government confiscation of private property is *always* compensable. The court disagreed, holding that *per se* takings analysis should only be applied to confiscation of real estate, not to intangible personal property such as trade secrets. It rejected WLF's argument that personal property is entitled to just as much Fifth Amendment protection as is real estate. WLF unsuccessfully argued that while government *regulation* of personal property is entitled to some degree of judicial deference and need not give rise to government liability, the government must always pay compensation when it engages in an actual physical confiscation or occupation of property.

The appeals court also held that Massachusetts could avoid Takings Clause liability by asserting that any disclosure of information should be deemed voluntary -- because tobacco companies could avoid disclosure simply by ceasing all sales in Massachusetts. WLF unsuccessfully argued that such a policy violates the "unconstitutional conditions" doctrine; that doctrine prohibits a State in most instances from conditioning receipt of a "benefit" (here, permission to continue selling products in the State) on one's willingness to waive one's constitutional rights.

WLF had noted that there is no credible evidence that release of detailed ingredient lists would provide any discernible health benefit. WLF noted that tobacco manufacturers already provide the federal government with an aggregated list of ingredients contained in cigarettes and smokeless tobacco. WLF argued that anyone wishing to conduct research into effects of tobacco product additives on public health has all the information necessary to conduct such research.

WLF is a public interest law and policy center with supporters in all 50 states, including Massachusetts. It devotes a substantial portion of its resources to defending the rights of businesses who have become the targets of unwarranted government regulation.

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