Litigation Update

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COURT ENJOINS 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 that prevents Massachusetts from confiscating trade secrets worth billions of dollars.

The decision was a victory 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. The court agreed with WLF 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 endorsed an effort by the tobacco industry to prevent the release of detailed lists of product ingredients. Those lists have long been closely guarded trade secrets, worth billions of dollars in the case of more popular cigarette brands. Had Massachusetts succeeded in requiring the disclosure of those lists, the trade secrets would have been rendered worthless.

"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. "Massachusetts's position 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 asserted 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 sought 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.

In 2000, 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 a three-judge First Circuit panel, which in October 2001 reversed the district court by a 2-1 vote. This week's decision, issued by the First Circuit sitting *en banc*, reversed the panel's decision.

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. The Court nonetheless agreed with WLF that, under an *ad hoc* balancing test often applied to regulatory actions, the Disclosure Act violates the Takings Clause.

The appeals court also agreed with WLF that Massachusetts could not 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 successfully 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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For further information, contact WLF Chief Counsel Richard Samp, (202) 588-0302.