The Marlboro Man's Secret versus the Public Health: Trade Secrets and Unconstitutional Takings in *Phillip Morris* v. *Reilly**

by MELANIE TANG**

In *Phillip Morris, Inc. v. Reilly*[1] (*Phillip Morris III*), the Massachusetts district court held that a Massachusetts disclosure law requiring manufacturers of cigarettes and smokeless tobacco to disclose the ingredients in those products constituted a taking in violation of the Fifth Amendment. The district court found that the Massachusetts law violated the takings clause by taking trade secrets for public use with no provision for, or reasonable prospect of, just compensation. The district court also found that the Massachusetts law violated Phillip Morris' Fourteenth Amendment due process rights and that it violated the Commerce Clause. In issuing a permanent injunction against the state, the *Phillip Morris III* court published its own opinion, but also relied upon two prior holdings: the district court's decision issuing a preliminary injunction in *Phillip Morris I*,[2] and the First Circuit Court of Appeals decision upholding the preliminary injunction in *Phillip Morris II*.[3] Although courts have in the past found that trade secrets are property interests protected by the Fifth Amendment, the *Phillip Morris* holdings are important for

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* While this note was going to press, the appellate court reversed the district court ruling. *See* 267 F.3d 45 (1st Cir. 2001) (withdrawn from the bound volume). However, this discussion remains instructive and relevant for the developing field of Fifth Amendment takings jurisprudence.

** J.D., University of California, Hastings College of the Law, 2002. M.T.S., Harvard Divinity School, 1999. B.A. and B.S., Boston University, 1993. Thanks to Professor Brian Gray and William Pickel.

1. 113 F. Supp. 2d 129 (D. Mass. 2000).

2. *See* Phillip Morris, Inc. v. Harshbarger, 1997 U.S. Dist. LEXIS 21012 (D. Mass. Dec. 10, 1997).

3. *See* Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670 (1st Cir. 1998).

two reasons. First, they present a significant, if coherent, departure from established takings precedent and, second, in doing so, set a precedent for successful corporate regulatory takings challenges to "right-to-know," public welfare and safety laws.

This note will first introduce the Disclosure Act and the procedural history of this multiple-suit battle between the tobacco manufacturers and the state of Massachusetts in the courts. The rest of this note will discuss the ways in which the *Phillip Morris* cases depart from established takings law—especially that of the most relevant Supreme Court precedent, *Ruckelshaus v. Monsanto*[4]—and the public policy implications of those departures. Part I will consider *Phillip Morris'* novel interpretation of one of the most-often discussed criteria courts have considered in takings claims: a private property owner's reasonable investment-backed expectations. Part II will focus upon the court's analysis of the character of the state's action in light of the "essential nexus" and "roughly proportionate" standards promulgated in *Nollan v. California Coastal Comm'n*[5] and *Dolan v. City of Tigard,*[6] especially with respect to the courts' contrast between the benefit / burden scheme imposed in *Ruckelshaus* with the one imposed by the Massachusetts Disclosure Act.

Introduction: The Disclosure Act and Procedural History

On August 2, 1996, Massachusetts enacted the Disclosure Act, which required cigarette and smokeless tobacco manufacturers to disclose the additives and nicotine-yield ratings of their particular products to the state's public health department.[7] Most significantly,

4. 467 U.S. 986 (1984).

5. 483 U.S. 825 (1987).

6. 512 U.S. 374 (1994).

7. The Disclosure Act provides as follows:

> For the purpose of protecting the public health, any manufacturer of cigarettes, snuff or chewing tobacco sold in the commonwealth shall provide the department of public health with an annual report, in a form and at a time specified by that department, which lists for each brand of such product sold the following information:
>
> (a) The identity of any added constituent other than tobacco, water or reconstituted tobacco sheet made wholly from tobacco, *to be listed in descending order according to weight, measure or numerical count*; and
>
> (b) The nicotine yield ratings, which shall accurately predict nicotine intake for average consumers, based on standards to be established by the department of public health.
>
> The nicotine yield ratings so provided, and any other such information in the annual reports with respect to which the department determines that there is a reasonable scientific basis for concluding *that the availability of such information*

the statute provided that this information, which included the listing of all ingredients in cigarettes besides tobacco, water, and reconstituted tobacco sheet in descending order of weight or measures, could become part of the public record if the Department of Public Health determined that there was a "reasonable scientific basis for concluding that the availability of such information could reduce risks to public health,"[8] and the Attorney General determined that the publication of such information "would not constitute an unconstitutional taking."[9] The Disclosure Act was, and remains, unprecedented tobacco regulation. Under the Federal Cigarette Labeling and Advertising Act (FCLAA), cigarette manufacturers are required to file with the United States Department of Health and Human Services (DHHS) a general list of additives to all tobacco products.[10] However, the list is not brand-specific, does not contain information on the quantities of ingredients, and the DHHS is prohibited from publicly releasing the information.[11] Only two states, Minnesota and Texas, have additional state law disclosure

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> *could reduce risks to public health, shall be public records*; provided, however, that before any public disclosure of such information the department shall request the advice of the attorney general whether such disclosure would constitute an unconstitutional taking of property, and shall not disclose such information unless and until the attorney general advises that such disclosure would not constitute an unconstitutional taking.
>
> This section shall not require a manufacturer, in its report to the department or otherwise, to identify or disclose the specific amount of any ingredient that has been approved by the Food and Drug Administration, Public Health Service, United States Department of Health and Human Services ("FDA"), or its successor agency, as safe when burned and inhaled or that has been designated by the FDA, or its successor agency, as generally recognized as safe when burned and inhaled, according to the Generally Recognized as Safe list of the FDA.

MASS. ANN. LAWS ch. 94, § 307(B) (Law. Co-op. 2000) (emphasis added).

8. *Id.*

9. *Id.*

10. 15 U.S.C. § 1335(a) (1994).

11. Frank Phillips, *Cigarette Disclosure Measure Passes; Law Forcing List of Ingredients Would be the First in the Nation*, BOSTON GLOBE, July 25, 1996, at A1.

Cigarette manufacturers typically comply with the FCLAA through an elaborate process:

> [T]hey submit information to a law firm which acts as a clearinghouse for the industry. The law firm then furnishes an annual list of all ingredients used by any of the companies to the Secretary. The law firm maintains the secrecy of the ingredients used in a particular brand from both the government and the brand's competitors.

Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670, 672 (1st Cir. 1998). Furthermore, the Comprehensive Smokeless Tobacco Health and Education Act, which governs manufacturers of smokeless tobacco, 15 U.S.C. § 4403 (1994), is essentially the same as the FCLAA, both in respect to its requirements and the way in which compliance is reached. *Id.* at 672 n.2.

requirements beyond those of the FCLAA, but they are significantly more limited in scope than the Massachusetts law. The Minnesota statute requires the disclosure of only a select list of additives in tobacco products — ammonia, arsenic, cadmium, formaldehyde, and lead.[12] Texas law requires a disclosure process essentially identical to the Disclosure Act, except that it has an additional provision: information which "would be excepted from public disclosure as a trade secret under state or federal law" is kept confidential.[13]

The day the Disclosure Act went into effect, cigarette and smokeless tobacco manufacturers Phillip Morris, R.J. Reynolds, Brown & Williamson, United States Tobacco, Conwood, National Tobacco, Pinkerton Tobacco, Swisher International, and Lorillard sued the Massachusetts Attorney General in district court, claiming that the FCLAA and the Comprehensive Smokeless Tobacco Act preempted the Massachusetts law.[14] After losing their initial motion for partial summary judgment, the plaintiffs went on to lose in court twice more on the preemption issue.[15]

The plaintiffs filed suit a fourth time. But this time, they sued for declaratory and preliminary injunctive relief on the grounds that the Disclosure Act was unconstitutional in three respects: the Act denied the tobacco companies procedural due process in violation of the Fourteenth Amendment; the Act placed an undue burden upon interstate commerce in violation of the Commerce Clause; and the Act required public disclosure of trade secrets which amounted to a taking of property without just compensation in violation of the Fifth Amendment.[16] A preliminary injunction was granted by the district court,[17] and upheld by the First Circuit Court of Appeals.[18] Subsequently, the district court issued a permanent injunction against Massachusetts,[19] preventing the state from implementing the Disclosure Act. The permanent injunction was based primarily upon

12. MINN. STAT. ANN. § 461.17 (West 2000)

13. TEX. HEALTH & SAFETY CODE ANN. § 161.354(d) (Vernon 2000). *See generally* TEX. HEALTH & SAFETY CODE ANN. §§ 161.352 - 354 (Vernon 2000).

14. Phillip Morris, Inc. v. Harshbarger, 1997 U.S. Dist. LEXIS 2091 (D. Mass. Feb. 7, 1997).

15. Phillip Morris, Inc. v. Harshbarger, 957 F. Supp. 327 (D. Mass. 1997); Phillip Morris, Inc. v. Harshbarger, 122 F.3d 58 (1st Cir. 1997).

16. Phillip Morris, Inc. v. Harshbarger, 1997 U.S. Dist. LEXIS 21012, at *3-4 (D. Mass. Dec. 10, 1997).

17. *Id.*

18. Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670 (1st Cir. 1998).

19. Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129 (D. Mass. 2000).

the district court's finding that the Disclosure Act effectuated an unconstitutional taking of private property.

Part I: Regulatory Takings and Reasonable Investment-Backed Expectations

The Fifth Amendment of the United States Constitution protects private property rights: "No person shall be deprived of life, liberty or property without due process of law; nor shall private property be taken for public use, without just compensation."[20] Despite this absolutist proclamation, the idea that private property owners may do anything they wish whatsoever with their property has always been something of a myth. As James W. Ely, Jr. notes, private property rights have always been subject to common-law restrictions such as nuisance; community customs; as well as governmental controls such as taxation, eminent domain, and governmental regulation.[21] Richard Epstein has described "the government's efforts to regulate the possession, use, and disposition of private property"[22] as "a perfectly commonplace affair in modern American life."[23] Such commonplace regulations may affect land use, public health and welfare, or commercial transactions. In the context of private industry, regulations may impose a variety of controls—they may limit whom a business may sell its product to, or limit the hours it may operate. This is not to say that such regulations are welcomed: as one author has observed, "when government regulates private property under the police power, tensions tend to get particularly hot because it does not generally pay for the privilege."[24] The takings clause, then, offers protections for private property owners, requiring that individuals be compensated when governmental infringement of property rights go too far. However, this proposition is far more easily stated than explained. Whether a regulation goes too far will, of course, have

20. U.S. CONST. amend. V. The appropriateness of the legal status of corporations as fictional persons which enjoy constitutional protections, established in *Santa Clara County v. Southern Pacific Railroad Company*, 118 U.S. 394 (1886), is a subject which, though beyond the scope of this note, merits serious consideration, especially when one considers the ability of multinational corporations to bring (and win) takings challenges such as this one.

21. JAMES W. ELY, JR., THE GUARDIAN OF EVERY OTHER RIGHT. A CONSTITUTIONAL HISTORY OF PROPERTY RIGHTS (1998).

22. RICHARD EPSTEIN, TAKINGS 100-01 (1998).

23. *Id.* at 101.

24. ZYGMUNT J.B. PLATER, ROBERT H. ABRAMS, WILLIAM GOLDFARB & ROBERT L. GRAHAM, ENVIRONMENTAL LAW AND POLICY: NATURE, LAW AND SOCIETY (1998).

much to do with whom you ask. And there exists little black-letter law to offer concrete guidance on the subject: "[T]he Supreme Court has done little to clarify when a regulation crosses the critical line to become a taking."[25] Not surprisingly, at least one scholar has described takings law as "convoluted and often incoherent."[26] Despite the Supreme Court's identification of two categories of *per se* takings – "physical invasions of private property,"[27] and situations involving "the destruction of all economically beneficial use of the property, where the regulated activity was not a nuisance-like activity prohibited or constrained at common law"[28] – takings jurisprudence remains a highly fact-dependent, case-by-case analysis, "guided by notions of justice and fairness,"[29] as well as considerations of factors such as reasonable investment-backed expectations, the character of the governmental action, and the nature of the state interests served.

A. Reasonable Investment-Backed Expectations in *Penn Central v. New York City*: Remaining Value and the Whole Parcel Theory

As noted above, the property owner's reasonable investment-backed expectation is a key factor in determining whether a regulation "goes too far."[30] Where a governmental action interferes too dramatically with a reasonable investment-backed expectation, a court may find that such action is an unconstitutional deprivation of private property.

The origin of the "reasonable investment-backed expectation" criteria in takings cases may be traced to *PruneYard Shopping Center v. Robins*, where the Supreme Court described takings analysis as a comprehensive consideration of "the character of the governmental action, its economic impact, and its interference with reasonable, investment-backed expectations."[31] In *Penn Central Transportation*

25. Lynda J. Oswald, *Property Rights Legislation and the Police Power*, 37 AM. BUS. L. J. 527, 530 (Spring 2000).

26. *Id.* at 533.

27. *Id. See also* Loretto v. Teleprompter Manhattan CATV Corp., 458 U.S. 419, 435-36 (1982).

28. *Id. See also* Lucas v. South Carolina Coastal Council, 505 U.S. 1003, 1029-30 (1992).

29. Oswald, *supra* note 25, at 532.

30. *See* Pa. Coal v. Mahon, 260 U.S. 393, 415 (1922) (holding that "while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking").

31. Pruneyard Shipping Ctr. v. Robins, 447 U.S. 74, 83 (1980) (finding that the owner of a shopping center had no reasonable investment-backed expectation to exclude individuals who were passing petitions on the premises, and held that allowing the

Co. v. New York City, the Court laid out a framework for analyzing takings claims and reasonable investment-backed expectations, considering primarily the *remaining* value of the regulated private property in determining whether the reasonable investment-backed expectations of the property owner had been satisfied.[32] The *Penn Central* plaintiffs were a real estate developer and Penn Central Co., the owner of Penn Central Terminal in Manhattan, which claimed that the city's refusal, based on historic preservation and aesthetic reasons, to allow the construction of a multistory office building over the terminal amounted to an unconstitutional taking of private property for public benefit. Writing for the majority, Justice Brennan promulgated a multifactor, case-by-case balancing test for analyzing claims of regulatory takings. This "ad hoc, factual" inquiry considered the economic impact of the governmental action upon the claimant, "and, particularly, the extent to which the regulation interfered with the distinct investment-based expectations."[33]

After consideration of the city's landmarks law and the designation of Penn Central as a historic landmark, the Court found that the economic impact of the law did not interfere significantly with appellants' reasonable investment-backed expectations. Although a certain amount of future profit had been precluded by the regulation, the remaining value of the property, which included its current use, was unaffected by the regulation:

> [T]he New York City law does not interfere in any way with the present uses of the Terminal. Its designation as a landmark not only permits but contemplates that appellants may continue to use the property precisely as it has been used for the past 65 years.... So the law does not interfere with what must be regarded as Penn Central's primary expectation concerning use of the parcel. More importantly, on this record, we must regard the New York City law as permitting Penn Central not only to profit from the Terminal, but also to obtain a reasonable return on its investment.[34]

The Court also rejected appellants' contention that the relevant inquiry with respect to reasonable investment-backed expectations was the effect of the regulation solely upon the contested *airspace* above the terminal, the discrete portion of the property affected by

petitioning would not "unreasonably impair the value or use of the property as a shopping center").

32. Penn. Cent. Transp. Co. v. New York City, 438 U.S. 104, 123-28 (1978).

33. *Id.* at 124.

34. *Id.* at 136.

the regulation:

> "Taking" jurisprudence does not divide a single parcel into discrete segments and attempt to determine whether rights in a particular segment have been entirely abrogated.... [T]his Court focuses rather both on the character of the action and on the nature and extent of the interference with rights in the parcel as a whole- here, the city block designated as the "landmark site."[35]

This analysis promulgated by the Court has come to be known as the "whole parcel" test in takings jurisprudence, and prohibits conceptual divisibility in consideration of reductions in value of private property.[36]

B. Reasonable Investment-Backed Expectations in *Andrus v. Allard*: Commercial Transactions and the "Whole Bundle" Theory

In *Andrus v. Allard*, the Court considered reasonable investment-backed expectations with respect to personal, as opposed to real, property and upheld a regulation prohibiting the sale or transfer of personal property.[37] Two individuals were prosecuted for violating the Migratory Bird Treaty Act and the Eagle Protection Act after they sold Indian artifacts partially composed of feathers of birds protected under the Acts. The merchants contended that if the Acts applied to "pre-existing" artifacts, which had been obtained before the passage of the Acts, the Acts effectuated an unconstitutional taking.[38] The Court rejected the merchants' takings claim, despite its acknowledgment that "the timing of acquisition of the artifacts is relevant to a takings analysis of appellees' investment-backed expectations."[39] The Court applied a "whole parcel" analysis, focusing not upon the physical indivisibility of the property, but instead upon the aggregate property rights conferred upon the individuals owning the artifacts: "where an owner possesses a full 'bundle' of property rights, the destruction of one 'strand' of the bundle is not a taking, because the aggregate must be viewed in its entirety."[40] As such, the Court reasoned that, "the denial of one property right does not always amount to a taking."[41] Although the

35. *Id.* at 130-31.

36. *See* Keystone Bituminous Coal Ass'n v. DeBenedictis, 480 U.S. 470, 497 (1987).

37. Andrus v. Allard, 444 U.S. 51, 66-67 (1979).

38. *Id.* at 54-55.

39. *Id.* at 64 n.21.

40. *Id.* at 65-66.

41. *Id.* at 65.

Court recognized that the merchants had been precluded from the most profitable use their property,[42] it noted that, "when we review regulation, a reduction in the value of property is not necessarily equated with a taking."[43] Instead, the Court considered what the plaintiffs could do with the artifacts in light of the Acts:

> [I]t is not clear that appellees will be unable to derive economic benefit from the artifacts; for example they might exhibit the artifacts for an admissions charge. At any rate, loss of future profits- unaccompanied by any physical property restriction- provides a slender reed upon which to rest a takings claim. Prediction of profitability is essentially a matter of reasoned speculation that courts are not especially competent to perform.[44]

Like the *Penn Central* Court before it, the *Allard* Court took into consideration the fact that defendants had not been denied all economically viable use of their property, and specifically rejected the loss of potential future profits as a basis for finding an unconstitutional taking.

C. Reasonable Investment-Backed Expectations in *Ruckelshaus v. Monsanto:* Trade Secrets and Express Guarantees

In *Ruckelshaus v. Monsanto Co.*, the Supreme Court held that trade secrets recognized as property under state law enjoy Fifth Amendment protections from governmental takings, but reasonable investment-backed expectations must be based upon explicit promises to maintain the secrecy of those trade secrets.[45] The plaintiff, pesticide manufacturer Monsanto, challenged disclosure provisions of the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) on the grounds that they effectuated a taking. FIFRA requires that all pesticides sold in this country be registered with the Environmental Protection Agency (EPA). As part of the registration process, pesticide manufacturers are required to provide the EPA with information about the ingredients, as well as the health and safety effects of the pesticides. Before 1972, FIFRA contained no provisions regarding whether data submitted to the EPA under FIFRA would be kept secret.[46] In 1972, FIFRA was amended so that the EPA was prohibited from disclosing publicly submitted data that

42. *Id.* at 66.
43. *Id.* at 65.
44. *Id.* at 66.
45. 467 U.S. at 1005.
46. *Id.* at 1010.

both the applicant/submitter and the EPA determined to be trade secrets.[47] In 1978, additional amendments to FIFRA provided for the "disclosure of all health, safety, and environmental data to qualified requesters, notwithstanding the prohibition against disclosure of trade secrets."[48] Details about the manufacturing and quality control of pesticides, and the ingredients of pesticides, could not be disclosed unless the Administrator determined that the disclosure was "necessary to protect against an unreasonable risk of injury to health or the environment."[49] Monsanto subsequently sued the EPA, contending that FIFRA's data-disclosure provisions amounted to an unconstitutional taking of trade secret property without compensation.[50]

Writing for the majority, Justice Blackmun first addressed the issue of the nature of Monsanto's property rights in its trade secrets. Recognizing that "[t]rade secrets have many of the characteristics of more tangible forms of property,"[51] the Court concluded that to the extent Monsanto had a trade secret property right recognizable under state law, it had a property right protected by the taking clause of the Fifth Amendment.[52]

First, the Court found that with respect to all data submitted to FIFRA after the effective date of the 1978 amendments, there could be no taking because Monsanto submitted that data cognizant of the new terms of FIFRA allowing the EPA to disclose submitted data under certain circumstances.[53]

Second, the Court held that Monsanto could not claim that data submitted before 1972 had been unconstitutionally taken. Prior to 1972, the Court concluded that while FIFRA did not give the EPA authority to disclose data obtained from pesticide manufacturers, FIFRA also did not prohibit the EPA from disclosing data. With respect to the pre-1972 period, the Court observed that the Federal

47. *Id.* at 1011-1012.

48. *Id.* at 995-996.

49. *Id.* at 996 (quoting FIFRA § 10(d)(1)(c)(1978)).

50. Ruckelshaus v. Monsanto Co., 467 U.S. 986, 999 (1984).

51. *Id.* at 1002. The Court reasoned:

> A trade secret is assignable. A trade secret can form the *res* of a trust, and it passes to a trustee in bankruptcy. Even the manner in which Congress referred to trade secrets in the legislative history of FIFRA supports the general perception of their property-like nature.... Congress recognized that data developers like Monsanto have a "proprietary interest" in their data.

52. *Id.* at 1004.

53. *Id.* at 1006.

Trade Secrets Act, a criminal statute punishing government employees who disclose trade secrets acquired through their official duties, could be relevant.[54] However, the Court rejected the Trade Secrets Act as a basis upon which Monsanto could have reasonably relied for the same reasons that it found that the pre-1972 FIFRA could not be reasonably relied upon: the "Trade Secrets Act is not a guarantee of confidentiality to submitters of data, and absent an express promise, Monsanto had no reasonable investment-backed expectation that its information would remain inviolate in the hands of EPA."[55]

Third, the court considered data submitted after the 1972 amendments but before the 1978 amendments. Here, Monsanto had a legitimate takings claim against the EPA because of the existence of an express promise to keep the data confidential.[56] This promise, absent from the pre-1972 and post-1978 periods, was an "explicit governmental guarantee" which formed the basis of a reasonable investment-backed expectation. If EPA, consistent with the . . . 1978 FIFRA amendments, were now to disclose trade-secret data or consider those data in evaluating the application of a subsequent applicant in a manner not authorized by the version of FIFRA in effect between 1972 and 1978, EPA's actions would frustrate Monsanto's reasonable investment-backed expectation with respect to its control over the use and dissemination of the data it had submitted.[57]

The Court observed that the right to exclude others was considered one of the "most essential sticks in the bundle of rights that are commonly characterized as property,"[58] and that this right to exclude takes on particular significance when trade secrets are

54. *Id.* The Act provides for fines, imprisonment, and firing of any federal employee who:

> publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examination or investigation made by, or return, report or record made to or filed with, such department or agency or officer or employee thereof, which information concerns or relates to the trade secret, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership corporation, or association.

18 U.S.C. § 1905 (2000).

55. *Ruckelshaus,* 467 U.S. at 1008.

56. *Id.* at 1011.

57. *Id.* at 1011.

58. *Id.* (quoting Kaiser Aetna v. United States, 444 U.S. 164, 176 (1979)).

involved, because once trade secrets are disclosed to others "the holder of the trade secret has lost his property interest in the data."[59] Accordingly, the Court found that an analysis of remaining economic value in trade secrets cases was not appropriate:

> [T]hat the data retain usefulness for Monsanto even after they are disclosed – for example, as bases from which to develop new products or refine old products, as marketing and advertising tools, or as information necessary to obtain registration in foreign countries – is irrelevant to the determination of the economic impact of the EPA action on Monsanto's property right.[60]

Recognizing the unique nature of property interests in trade secrets, where an explicit governmental guarantee provides the basis of a reasonable investment-backed expectation, the *Ruckelshaus* Court pointedly departed from the *Penn Central* and *Allard* "whole parcel" theory of property rights.

D. *Phillip Morris*: Expectations Redefined

In granting the preliminary injunction, the district court in *Phillip Morris I* cited *Ruckelshaus* in its discussion of reasonable investment-backed expectations, and the unique, *per se* nature of trade secrets in takings analysis.[61] In concluding that the Disclosure Act violated the plaintiffs' reasonable investment-backed expectations, the court cited facts asserted by the plaintiffs and uncontested by the state:

> The record . . . supports [plaintiffs'] claims to have made substantial investments in the development of the "flavor recipes" which they say are their secrets. See Houghton Aff. P 12; Oelschlager Aff. P 12. The record also supports the claim that there would be a substantial loss of competitive advantage if the secrets were revealed. See Houghton Aff. P6; Ingram Aff P 6-7. Where those factors exist, *Ruckelshaus* instructs that trade secrets may not be taken – that is destroyed – without compensation.[62]

Phillip Morris II concluded that the lower court was correct in its determination that the plaintiffs possessed the "requisite expectations to support a takings claim."[63] However, unlike the lower court, the appellate court engaged in a more detailed discussion of

59. *Id.*

60. *Id.* at 1012.

61. Phillip Morris, Inc. v. Harshbarger, 1997 U.S. LEXIS 21012, at *17 (D. Mass. Dec. 10, 1997).

62. *Id.* at *18.

63. *Id.* at *14.

Ruckelshaus. After recounting the three-part *Ruckelshaus* decision in some detail, the appellate court ultimately concluded that Massachusetts statutory and common law based protections for trade secrets made *Ruckelshaus*'s 1972-78 period "the closest, most persuasive analogy to the situation created by"[64] the Disclosure Act. The court reasoned that the statutory and common law protections "in effect provided specific protections for trade secret information"[65] so explicit that they were akin to the FIFRA's 1972 provisions guaranteeing that designated trade secrets would be protected from disclosure. In reaching this conclusion, the appellate court rejected the state's contention that the statutory and common law trade secret protections made the present situation analogous to the pre-1972 time period in *Ruckelshaus*, due to the *lack* of affirmative assurances of nondisclosure of submitted information contained in those doctrines. In a section of its opinion entitled "The Marlboro Man's Secret," the appellate court described the tobacco companies' "recipes" as extraordinarily financially valuable.[66] In support of this proposition, the appellate court cited a *Financial World* article,[67] as well as plaintiffs' claims:

> The tobacco companies claim that the operation of Section 307B threatens to destroy these enormously valuable trade secrets. The industry submits aggregate lists of all ingredients included in tobacco products sold in the United States in compliance with federal law . . . . [T]hese lists cannot feasibly be used to copy a tobacco product's taste or aroma. Divulging brand-specific lists of ingredients in descending order of

64. Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670, 677 (1st Cir. 1998).

65. *Id.* The court cited MASS. ANN. LAWS. Ch. 93 §§ 42 and 42A (West 2000), and Peggy Lawton Kitchens, Inc. v. Hogan, 466 N.E.2d 138, 139-40 (Mass. App. Ct. 1984). Section 42 deals with Misappropriation of Trade Secrets, and states in relevant part:

> Whoever embezzles, steals or unlawfully takes, carries away, conceals or copies, by fraud or by deception obtains, from any person or corporation, with intent to convert to his own use, any trade secret, regardless of value, shall be liable in tort to such person or corporation for all damages resulting therefrom. Where or not the case is tried by a jury, the court, in its discretion, may increase the damages up to double the amount found.

Section 42A provides for injunctive relief for misappropriation of trade secrets. In *Peggy Lawton*, the court found that the use of nut dust in chocolate chip cookies was a trade secret, despite being a rather mundane substance. The court found that the nut dust "served to add that modicum of originality which separates a process from the every day and so characterizes a trade secret." *Peggy Lawton*, 466 N.E.2d at 139-40.

66. *Phillip Morris*, 151 F.3d at 673.

67. *Id. See* Kurt Badenausen, *Blind Faith*, FINANCIAL WORLD, July 8, 1996 at 50-65 (touting Phillip Morris's Marlboro brand "as worth over $44,000,000,000 and . . . the most valuable of 364 brand names surveyed.").

> volume . . . is quite a different story; the plaintiffs aver . . . that such lists, when and as disclosed will allow pirates to "reverse engineer" products . . . with substantially reduced research and development costs. The threat of this increased ease of entry into, and competition within, the tobacco industry fuels the plaintiffs' challenge.[68]

In issuing a permanent injunction, *Phillip Morris III* did not engage in an extensive analysis of the plaintiffs' reasonable investment-backed expectations. The court cited the plaintiffs' depositions and relied upon the findings in the summary judgment record before it, finding it "clear" that the plaintiffs "made substantial investments in the development and protection of their brand-specific ingredient information" and that the Disclosure Act would cause plaintiffs to suffer "a substantial loss of competitive advantage."[69]

The *Phillip Morris* holdings regarding reasonable investment-backed expectations are even more unprecedented than the Disclosure Act itself. Not surprisingly, all three opinions reject the whole parcel analysis of *Penn Central* and *Allard*, and adopt the *Ruckelshaus* Court's view that the property interest contained in a trade secret is destroyed the moment it ceases to be secret. However, the holdings fail to conform to the *Ruckelshaus* analysis regarding express assurances against public disclosure. Although the *Ruckelshaus* and *Phillip Morris* situations are different because the former concerns amendments to an existing statute, while the latter addresses the enactment of a new statute, the *Ruckelshaus* Court's discussion of the Federal Trade Secrets Act shows that an affirmative guarantee against disclosure may be located in statutory authority outside of the contested statute, so long as it explicitly exists. Any discussion of parallels between the Trade Secrets Act and Massachusetts statutory and common law trade secret protections is notably absent from any of the *Phillip Morris* opinions. Although the Trade Secrets Act, the Massachusetts trade secret misappropriation laws, and the holding of *Peggy Lawton Kitchens* all substantively protect trade secrets, none offer the *Ruckelshaus* Court's "guarantee of confidentiality to submitter of data" vis-à-vis regulatory agencies. In fact, the Massachusetts misappropriation statute and *Peggy Lawton* holding, having nothing to do with misappropriation of trade secrets by government agency employees, are more general than the Trade Secrets Act and offer even less of a basis upon which to assert

68. *Phillip Morris*, 159 F.3d at 673.

69. Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129, 144 (D. Mass. 2000).

affirmative trade secret protections vis-à-vis regulatory agencies.

The more significant aspect of the *Phillip Morris* holdings is not the First Circuit's incomplete application of *Ruckelshaus*, however. In determining that the plaintiffs had a reasonable investment-backed expectation protected by the Fifth Amendment, the *Phillip Morris* courts relied almost exclusively upon documents submitted by plaintiffs asserting that their recipes were worth a great deal of money, and that disclosure would cause them to lose a great deal of money. Although it appears that the court-cited affidavits were not factually challenged by the state of Massachusetts, such limited analysis is not supported by *Ruckelshaus*, *Penn Central*, or *Allard*. In *Ruckelshaus*, the Court acknowledged that pesticide companies made significant financial investments in developing and marketing new pesticides, noting in its opinion that development of new commercial pesticides requires a development process of 14 to 22 years, the expenditure of $5 to $15 million per year for several years, with the result that Monsanto "successfully markets 1 out of every 10,000 chemicals tested."[70] Although these factors confirmed the trade secret value of pesticide formulas, they were not dispositive in determining Monsanto's reasonable investment-backed expectations. In this respect, *Monsanto*'s special consideration for trade secrets is consistent with the whole parcel theory in *Penn Central* and *Allard*, insofar as a reasonable investment-backed expectation is considered within a larger context beyond the investor's monetary output and declared interests. *Monsanto* considered not just the company's investments in the development of trade secrets, but also the circumstances under which the data had been submitted to the EPA; *Penn Central* considered not just the inability to build additional office space, but also the ability for the terminal to continue operating in its current capacity; and *Allard* considered the merchants' ability to retain their artifacts, even though they could no longer sell them. Furthermore, the *Penn Central* and *Allard* Courts declined to include calculations of future profits precluded by newly imposed regulations, with the *Allard* Court commenting that "loss of future profits—unaccompanied by any physical property restriction—provides a slender reed upon which to rest a takings claim."[71] Similarly, the *Monsanto* Court commented that a "reasonable investment-backed

70. Ruckelshaus v. Monsanto, 467 U.S. 986, 998 (1984) (citing Monsanto v. Acting Administrator, United States EPA, 564 F. Supp. 552, 555 (E.D. Mo. 1983)).

71. *See* Penn Central v. City of New York, 438 U.S. 104, 130 (1978); Andrus v. Allard, 444 U.S. 51, 66 (1979).

expectation must be more than a unilateral expectation or an abstract need."[72] In *Ruckelshaus*, *Penn Central*, and *Allard*, reasonable investment-backed expectations of private property owners are defined in terms of the interplay between private property interests and governmental actions, with the operating background assumptions that the state has the power to regulate and limit private property rights and that a monetary loss alone is not enough to support a takings claim. This is why other considerations are taken into account: the degree to which the regulation alters the previous conditions and the amount of the property that remains unfettered by the regulation. It is also fair to say that implicit in those cases is a presumption of the constitutionality of regulation and law, with courts giving lawmakers the discretion to regulate in the public interest.

In *Phillip Morris*, the locus of the inquiry into a private property owner's reasonable investment-backed expectations is profoundly transformed: it does not involve a consideration of the interplay between property owner regulation, or any other attempt (save the appellate court's quote from *Financial World*) by the courts to independently discern facts or consider the possible consequences of the Disclosure Act. Rather, the courts simply considered the actions taken and money invested by the tobacco companies, and the companies' self-serving descriptions of the dangers of reverse engineering, with the ultimate result that all three courts agreed that the industry's own predictions of a large monetary loss were such that the Act would surely violate the companies' reasonable investment-backed expectations. In addition to the obvious fox-guarding-the-henhouse problem of allowing expectations to be "unilaterally defined" by private property owners who are likely to be the most ardent opponents of the law or regulation, the *Phillip Morris* holdings effectively jettison the need for courts to consider any factors except for the financial output and potential profits of the private property owner which, in the case of huge industries like tobacco, may easily reach into the millions of dollars. Robert K. Hur has suggested that the *Phillip Morris* plaintiffs misrepresented their interests in the Disclosure Act litigation, "persuading the . . . courts to accept its [sic] apocalyptic picture of the magnitude of interests at stake and the grave danger posed to those interests."[73] Specifically, Hur argues that

72. *Ruckelshaus*, 467 U.S. at 1005 (quoting Webb's Fabulous Pharmacies v. Beckwith, 449 U.S. 155, 161 (1980)).

73. Robert K. Hur, *Takings, Trade Secrets, and Tobacco: Mountain or Molehill?*, 53 STAN L. REV. 447, 472, 483 (2000). To be entirely fair, it is worth noting that Hur also

tobacco products can already be reverse engineered using processes such as chromatographic and mass spectral analyses, and that such practices are entirely acceptable;[74] that the "oligopolistic nature" of the tobacco industry renders the plaintiffs' concerns about upstart competitors stealing their business minimal, if not disingenuous;[75] that "tobacco titans" would not face "significant threats from each other if their ingredient lists were disclosed" because they are motivated to make their products unique, not similar;[76] and that tobacco companies have successfully dealt with disclosure laws in the past in Canada.[77] Hur's contentions emphasize the *Phillip Morris* courts' failure to engage in any significant independent fact-finding, simply accepting the tobacco companies' claims at face value without so much as an expression of skepticism.

The impressive numbers quoted by the *Phillip Morris* plaintiffs also raise the question of bias in favor of large, rich plaintiffs in takings cases. The *Phillip Morris* holdings suggest that the more money a plaintiff invests in a private property interest like a trade secret, the more likely it is that the plaintiff's takings claim will be successful. This contravenes the very idea of a reasonable investment-backed expectation, which should be considered in relative, not absolute, terms. Furthermore, questions of fundamental fairness exist in situations like *Phillip Morris*, involving a large, influential, corporate industry like tobacco, where the aggrieved plaintiff is likely to already enjoy representation and influence in political and legislative processes.

Part II. The Character of the Governmental Action

A. The Price of Living in a Civilized Society: *Penn Central* and *Allard*

In applying *Penn Central*'s ad-hoc, multifactor test, Justice Brennan also discussed the "character" of the governmental action, noting that governmental actions constituting physical invasions upon

describes the Disclosure Act as "unconstitutional harassment of an industry, a legislative 'window-breaking' of sorts."

74. *Id.* at 483.

75. *Id.* at 487. Hur writes: "Four companies . . . sell ninety-eight percent of the 450 million packs of cigarettes purchased annually in Massachusetts, dominating the $1.2 billion state market. The market share figure holds roughly true for the national market as well. (citations omitted)."

76. *Id.* at 487.

77. *Id.* at 488. Hur writes, "[T]obacco companies have shown that where they have a will to sell their products, they can find a way to do so."

private property are more likely to be considered unconstitutional takings,[78] as opposed to interference with private property rights in a regulatory context, "aris[ing] from some public program adjusting the benefits and burdens of economic life to promote the common good."[79] Accordingly, Justice Brennan cited the Court's upholding of "land-use regulations that destroyed or adversely affected recognized real property interests"[80] in the context of zoning laws. Justice Brennan also discussed the nuisance exception to the takings clause, or harm/benefit test, generally understood to be the idea that private property rights are always subject to governmental regulation for the purpose of promoting a public interest, and that a diminution in value of private property due to such governmental regulation is not a taking.[81]

In rejecting appellants' argument that they had suffered a taking, the *Penn Central* majority validated the state's broad power to regulate private property:

> Stated baldly, appellants' position appears to be that the only means of ensuring that selected owners are not singled out to endure financial hardship for no reason is to hold that any restriction imposed on individual landmarks pursuant to the New York City scheme is a 'taking' requiring the payment of 'just compensation.' Agreement with this argument would, of course, invalidate not just New York City's law, but all comparable landmark legislation in the Nation. We find no

78. Penn Central Transportation Co v. New York City, 438 U.S. 104, 124 (1978). Most recently, the Supreme Court held in *Loretto v. Teleprompter Manhattan CATV Corp.*, 485 U.S. 419, 421 (1982), that a taking in the form of a physical occupation was effectuated by a city ordinance requiring the owner of an apartment building to allow installation of cable television connections in her building, even though the diminution of property value was, to say the least, minimal.

79. *Penn Central*, 438 U.S. at 124.

80. *Id.* at 125.

81. *Id.* at 125-27. Some of the more famous "nuisance exception" cases emphasize the idea that private property owners always hold title subject to social and economic changes which may necessitate a change in the laws affecting the nature of that private property right. In *Mugler v. Kansas*, 123 U.S. 623 (1887), despite the fact that the passage of a law prohibiting consumption and manufacture of alcohol had the effect of rendering Mugler's formerly legal business illegal and worthless overnight, the Supreme Court held that the Kansas legislature was within its authority in declaring alcohol to be a public nuisance, and denied Mugler any compensation. In *Hadachek v. Sebastian*, 239 U.S. 404, 410 (1915). the operator of a brickyard had his land annexed by the rapidly-growing city of Los Angeles, and suddenly found that the continued operation of his business violated newly applicable municipal codes. The Court rejected the idea of Hadachek having a "vested interest" in the value of his brickyard, noting that "[t]here must be progress, and if in its march private interests are in the way they must yield to the good of the community."

merit in it. [82]

The *Allard* Court also implicated the nuisance exception in its decision upholding the Migratory Bird Treaty and Eagle Protection Acts, drawing upon prohibition-era cases to illustrate the extent to which commercial transactions may be regulated: "Regulations that bar trade in certain goods have been upheld against claims of unconstitutional taking."[83] The Court deferred to the power and judgment of the state to impose regulations, even severe ones. Although the *Allard* merchants would "bear the costs" of the Acts, [84] the Court held that "within limits, that is a burden bore to secure the advantage of living and doing business in a civilized community."[85] In *Penn Central* and *Allard*, the Supreme Court generally validated the state's power to impose regulations governing a broad spectrum of civic life, from land use and zoning to commercial transactions.

B. The Essential Nexus and Roughly Proportional Standards, and Wipeouts: *Nollan v. California Coastal Commission, Dolan v. City of Tigard*, and *Lucas v. South Carolina Coastal Council*

In *Nollan v. California Coastal Commission,* the Supreme Court held that a zoning law was unconstitutional because it did not "substantially advance legitimate state interests."[86] The Coastal Commission had denied the Nollans, owners of a 1/10th acre lot, permission to expand their cabin into a larger home unless they agreed to an easement to allow public foot traffic to walk across the Nollans' property. The Court found that the easement did not serve the Commission's proffered reasons for imposing it—protecting the public's ability to see the public beach, thereby "assisting the public in overcoming the psychological barrier to using the beach created by a developed oceanfront, and preventing congestion on the public beaches."[87] The Court found no "essential nexus" between the "condition and the original purpose of the building restriction,"[88] and characterized the Commission's true objective as an attempt to obtain

82. *Penn Central*, 438 U.S. at 131.

83. Andrus v. Allard, 444 U.S. 51, 67 (1979).

84. *Id.* at 67. (quoting Pennsylvania Coal Co. v. Mahon, 260 U.S. 393, 422 (1992)).

85. *Allard*, 444 U.S. at 67.

86. Nollan v. California Coastal Comm'n, 483 U.S. 825, 834 (1987) (quoting Agins v. City of Tiburon, 447 U.S. 225, 261 (1980)).

87. *Id.* at 835.

88. *Id.* at 837.

a free easement.[89] In a footnote, Justice Scalia distinguished *Ruckelshaus* from the case at hand by considering the nature of the benefit conferred:

> [T]he right to build on one's own property even though its exercise can be subject to legitimate permitting requirements cannot remotely be described as a 'governmental benefit.' And thus the announcement that the application (or granting of) the permit will entail the yielding of a property interest cannot be regarded as establishing the voluntary 'exchange,' 467 U.S. at 1007, that we found to have occurred in *Ruckelshaus*.[90]

In *Dolan v. City of Tigard*,[91] the Supreme Court subjected state actions to even more scrutiny by adding a second criterion to the *Nollan* "essential nexus" test.[92] In *Dolan*, a shop owner was granted a city permit to expand her store upon the condition that she dedicate portions of her land to the city as a greenbelt to minimize flooding, and as a pedestrian / bicycle pathway in the interests of relieving traffic congestion.[93] Under *Nollan*, the city's exaction was constitutional because an "essential nexus" existed: the prevention of flooding and reduction of traffic congestion were legitimate public purposes, and the Court noted that "it seems equally obvious that a nexus exists" between preventing flooding and limiting development in the flood plain.[94] However, the *Dolan* Court imposed a second tier of analysis through the creation of a "rough proportionality" standard, and required the city to "make some sort of individualized determination that the required dedication is related both in nature and extent to the impact of the proposed development."[95] The city's exaction failed this test: the Court found that there had been no explanation as to why the flood plain had to be a public, not private, easement.[96] The Court also rejected as too vague the city's claim that the pathway "could" decrease traffic congestion occasioned by the expansion of the store, describing it as "a far cry from a finding that the bicycle pathway system *will*, or is *likely* to, offset some of the traffic demand."[97] Consequently, the Court found that the exaction of

89. *Id.*
90. *Id.* at 834 n.2.
91. 512 U.S. at 391.
92. *Id.*
93. *Id.*
94. *Id.* at 387 (quoting *Nollan*, 483 U.S. at 836).
95. *Id.* at 391.
96. *Id.* at 393.
97. *Id.* at 395 (quoting Dolan v. City of Tigard, 317 Or. 110, 127 (1993)).

Dolan's property was not roughly proportionate to the city's ostensible rationale.

In *Lucas v. South Carolina Coastal Council,* the Court found that a man who had been prevented from building upon two residential lots by legislation passed two years after he purchased those lots suffered an unlawful taking of private property.[98] Writing for the majority, Justice Scalia held that the South Carolina law removed all value from Lucas's two parcels of land, and that, consequently, Lucas was entitled to compensation: "[W]hen the owner of real property has been called upon to sacrifice *all* economically beneficial uses in the name of the common good, that is, to leave his property economically idle, he has suffered a taking."[99] *Lucas* has come to stand for the proposition that where a regulation "denies all economically beneficial or productive use of land," or causes a wipeout, a *per se* taking has occurred.[100]

In *Nollan*, *Dolan*, and *Lucas*, the Supreme Court began applying a higher level of scrutiny to the use of police power in ways which impact private property interests, especially with respect to land use and zoning actions.

C. *Ruckelshaus, Corn Products Refining Co. v. Eddy,* and *National Fertilizer Co. v. Bradley*: Voluntary Exchanges, Benefits, and Public Disclosure

In *Ruckelshaus,* the plaintiffs argued that FIFRA's provisions were an unconstitutional condition on the right to the "valuable Government benefit"[101] of registration. The Court rejected this argument, finding FIFRA's provisions to be well within the bounds of the federal government's power to market and regulate pesticides. Having made this determination, the Court found that any further analysis as to whether the burden of registration was a fair tradeoff was not a matter of constitutional significance, but an internal business decision:

> Because the market for Monsanto's pesticide products is an international one, Monsanto could decide to forgo registration in the United States and sell a pesticide only in foreign markets. Presumably it will do so in those situations where it deems the data to be protected from disclosure more valuable than the

98. 505 U.S. 1003, 1012-13 (1992).

99. *Id.* at 1019.

100. *Id.* at 1015.

101. Ruckelshaus v. Monsanto, 467 U.S. 986, 1006 (1984).

right to sell in the United States.[102]

The Court pointed to Monsanto's continuing research, development and submission of new data to the EPA as proof that the company was "willing to bear this burden in exchange for the ability to market pesticides in this country."[103] Therefore, the Court concluded, as long as Monsanto is aware of the conditions under which the data are submitted, and the conditions are rationally related to a legitimate Government interest, a voluntary submission of data by an applicant in exchange for the economic advantages of a registration can hardly be called a taking.[104]

The *Ruckelshaus* Court also commented upon the social value of disclosure requirements: "[P]ublic disclosure can provide an effective check on the decision-making processes of EPA and allows members of the public to determine the likelihood of individualized risk peculiar to their use of the product."[105] Consequently, the Court reconciled its Fifth Amendment protection for trade secrets with the validity of disclosure statutes by limiting the protection of the right to exclude to a right enjoyed against competitors, not consumers:

> We emphasize that the value of a trade secret lies in the competitive advantage it gives its owner over its competitors.... If... a public disclosure of data reveals, for example, the harmful side effects of the submitter's product and causes the submitter to suffer a decline in the potential profits from sales of the product, that decline in profits stems from a decrease in the value of the pesticide to consumers, rather than from the destruction of an edge the submitter had over its competitors, and cannot constitute the taking of a trade secret.[106]

The Supreme Court's holding in *Ruckelshaus* was not unprecedented in upholding the underlying policies behind public disclosure, or "right-to-know" laws and regulations. In *Corn Products Refining Co v. Eddy*,[107] a case cited and quoted in *Ruckelshaus*, a corn syrup manufacturer challenged a Kansas statute requiring labels to "state definitely the percentage of each ingredient."[108] The Supreme Court rejected the manufacturer's

102. *Id.* at 1007 n. 11.

103. *Id.* at 1007.

104. *Id.*

105. *Id.* at 1016.

106. *Id.* at 1011-12 n.15.

107. 249 U.S. 427 (1919). *See also Ruckelshaus*, 467 U.S. at 1007-08.

108. *Eddy*, 249 U.S. at 430.

challenge:

> And it is too plain for argument that a manufacturer . . . has no constitutional right to sell goods without giving to the purchaser fair information of what it is that is being sold. The right of a manufacturer to maintain secrecy as to his compounds and processes must be held subject to the right of the state, in the exercise of its police power and in promotion of fair dealing, to require that the nature of the product be fairly set forth.[109]

In *National Fertilizer Ass'n, Inc. v. Bradley,*[110] the Supreme Court rejected another manufacturer's challenge to a state law requiring disclosure of fertilizer ingredients, simply stating that "[i]n response to the assertion that compliance with the . . . amendment would require complainants to reveal secret formulas and thus unlawfully deprive them of property . . . is enough to refer to [*Eddy*]."[111] The *Ruckelshaus* Court's validation of the government's power to regulate commercial products is consistent with the established principle that disclosure laws serve important public welfare purposes.

D. *Phillip Morris*: Benefits, Burdens, and Vested Rights

The *Phillip Morris* courts expressed skepticism about both the validity of the state's exercise of police power through the Disclosure Act, and the effectiveness of the Act's two-step review process. In *Phillip Morris I*, the court found that there was a "substantial question" as to whether the disclosure of trade secrets was a "harm disproportionate to the marginal benefit in increased public awareness of the dangers of tobacco use that could be anticipated."[112] In *Phillip Morris III*, the district court rejected Massachusetts' contention that plaintiffs' claim was not ripe because no trade secrets had actually been publicized yet.[113] The court found that the review process, such that it was, was far too slanted toward disclosure.[114] The Attorney General's position on the subject, made evident throughout the litigation, meant that he could not be expected to ever find that a disclosure would effectuate a taking.[115] And the Department of Public Health standard for disclosure was simply too low:

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109. *Id.* at 431-32.

110. 301 U.S. 178 (1937).

111. *Id.* at 182.

112. Phillip Morris, Inc. v. Harshbarger, No. 96-11599GAO, 1997 U.S. Dist. LEXIS 21012, at *16-17 (D. Mass. Dec. 10, 1997).

113. Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129, 138 (D. Mass. 2000).

114. *Id.* at 139.

115. *Id.* at 140.

> There is no reason to expect that the DPH would conclude, in effect, that providing more information to consumers about the ingredients of tobacco products could not reduce public health risks. After all, the very premise of the statute is to the contrary: manufacturers of tobacco products should be required to disclose what is in their products so consumers may know more about what they consume, and, presumably, think better of it. It taxes credulity to think that the tobacco product ingredient information would not be designated for public disclosure under any good-faith application of the statutory standard.[116]

The court predicted that while the Disclosure Act's "reasonable scientific basis" standard "would be met by a minimal showing of reliability," the standard for *not* publicizing the ingredient lists would be virtually impossible to meet.[117]

Phillip Morris III also characterized Massachusetts' contention that the plaintiffs could avoid public disclosure altogether "simply by withdrawing from sale in Massachusetts any product manufactured using the secrets" as a misinterpretation of *Ruckelshaus*.[118] The court found that, unlike the FIFRA regulatory scheme at issue in *Ruckelshaus*, which offered both burdens and benefits to the pesticide manufacturers, the Disclosure Act offered the tobacco manufacturers only burdens. The ability to continue selling products in Massachusetts could not be properly construed as a benefit, because it was "not similar to the give-and-take exchange that the Court approved in *Ruckelshaus*."[119]

Phillip Morris II described *Nollan*, *Dolan* and *Lucas* as "signposts" pointing "in a direction favoring the tobacco companies' position," insofar as they suggested that courts "will demand substantial, rather than nominal, compensation to legitimate governmental takings."[120] In rejecting the state's "isthmian focus on *Monsanto's* treatment of the pre-1972 period," the court held that *Ruckelshaus* had to be understood in terms of *Dolan*, with the relevant inquiry being what plaintiffs would receive as compensation or a benefit in exchange for giving up their property rights in their trade secrets.[121] The court described as "pellucid" Massachusetts'

116. *Id.* at 147.

117. *Id.* at 139.

118. *Id.* at 144.

119. *Id.*

120. Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670, 678 (1st Cir. 1998).

121. *Id.* at 678.

argument that the ability of the plaintiffs to continue doing business in the state was a fair benefit conferred in exchange for the burden of compliance:

> The ability to conduct (and more especially, to continue to conduct) a lawful business in Massachusetts, though subject to some governmental requirements, simply is not analogous, either in kind or in degree, to the benefit that effected the exchange and extinguished the takings claim in *Ruckelshaus*.[122]

Drawing a parallel between the Nollans' right to use property they owned in the manner they wished, and the tobacco companies' right to continue engaging in a lawful business, the appellate court characterized Massachusetts' attempt to implement the Disclosure Act as working a legal compulsion, forcing plaintiffs to make a "Hobson's choice" of losing essential trade secret protections or withdrawing from the Massachusetts market.[123]

Although not addressed in *Phillip Morris III*, *Phillip Morris II*'s discussion of *Nollan* and *Dolan* as "signposts" modifying the clear terms of *Ruckelshaus* via a general pro-property rights policy shift presents novel interpretations of *Nollan* and *Dolan*. There is, at the outset, a colorable argument that the *Dolan* "rough proportionality" standard is simply not applicable to regulatory takings cases such as *Phillip Morris*. In its brief to the appellate court, Massachusetts cited *City of Monterey v. Del Monte Dunes at Monterey, Ltd.*, where the Supreme Court held that "we have not extended the rough-proportionality test of *Dolan* beyond the special context of exactions—land-use decisions conditioning approval of development on the dedication of property to public use."[124] Such an interpretation of *Dolan* could arguably also support the contention that *Nollan* is similarly limited to land use cases.[125]

Even if *Dolan* is understood as a clarification or explication of *Nollan* with a broad application in takings jurisprudence, however, the appellate court's use of *Nollan* and *Dolan* to address primarily the issue of compensation paid to the private property owner ignores a

122. *Id.* at 677.

123. *Id.* at 678-79.

124. 526 U.S. at 702. *See also* Brief for Appellant at 46, Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129 (D. Mass. 2000) (No. 96-11619) [hereinafter Brief for Appellant]. *See also* Tahoe-Sierra Pres. Council, Inc. v. Tahoe Reg., Planning Agency, 216 F.3d 764, 772 n.11 (9th Cir. 2000) (relying upon City of Monterey v. Del Monte Dunes at Monterey, Ltd., 526 U.S. 697, 703 (1999), for the proposition that the *Nollan/Dolan* test is "inapposite to regulatory takings cases outside the context of excessive exactions.").

125. Brief of Amicus Curiae of Environmental Defense et al. at 26, Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129 (D. Mass. 2000).

fundamental aspect of *Nollan*. In *Nollan*, what the Court required, and what the coastal commission could not provide, was a nexus between the governmental action and the governmental interest in the action. Requiring a path next to the seawall on the Nollans' property was not unconstitutional *per se*; rather, it was unconstitutional because requiring the path was not rationally related to the underlying purposes served by the exaction.[126] The *Phillip Morris* courts, however, do not address the issue of whether an essential nexus exists between the Disclosure Act and Massachusetts' interest in promoting public health. Instead, the appellate court treats *Nollan* and *Dolan* as requiring compensation for those adversely affected by governmental regulations, a position explicitly rejected in *Penn Central* and *Allard*, as well *Ruckelshaus*, *Eddy*, and *National Fertilizer*.

Furthermore, it is clear that the Disclosure Act would pass the essential nexus test. Although the Disclosure Act was unprecedented in its scope, the FCLAA, the Texas and Minnesota laws, *Ruckelshaus*, *Eddy*, *National Fertilizer,* and common sense all support the proposition that there is a rational relation between the disclosure of ingredients contained in tobacco products and the state's interest in promoting public health. Product labels are commonplace on consumer goods ranging from painkillers to fertilizers to soda, allowing consumers to make informed choices about what they buy and consume based upon fat content, carcinogenic components, and potential side effects. However, the most convincing evidence of an essential nexus between the Act and promotion of public health may be the district court's own characterization of the Disclosure Act as too pro-disclosure. Describing the "premise" of the statute as requiring disclosure of ingredients "so consumers may know more about what they consume and, presumably, think better of it,"[127] the district court's criticism of the Act's two-part review standard proves too much, more or less implicitly assuming the existence of an essential nexus. Despite this concession, however, none of the *Phillip Morris* courts discuss the application of the essential nexus test to the Disclosure Act, thereby ignoring the primary focus of *Nollan*.

The *Phillip Morris* courts' efforts to distinguish the Disclosure Act from FIFRA in *Ruckelshaus* by way of *Nollan* and the benefits conferred by the governmental regulation is also unsupported by relevant case law. In *Phillip Morris II*, the appellate court quoted

126. *See* Nollan v. California Coastal Comm'n, 483 U.S. 825, 835-42 (1987).

127. *Phillip Morris III*, 113 F. Supp. 2d at 147.

Justice Scalia's footnote in *Nollan*, distinguishing "the ability to improve one's own property" and the "type of government benefit proffered in exchange for use and disclosure of trade secret information in *Ruckelshaus*,"[128] in support of its conclusion that the benefits received by the plaintiffs in *Ruckelshaus* could be distinguished from the right to develop privately owned property in *Nollan*.

Specifically, the appellate court found that the *Ruckelshaus* plaintiffs had been granted affirmative benefits through registration, whereas the *Nollan* plaintiffs had only gained the ability to do something which they had a right to do in the first place: "*Nollan* teaches that the mere granting of permission to engage in routine activities, incident to existing property rights, does not afford compensation sufficient to support a *Ruckelshaus*-type exchange."[129] In making this distinction, the *Phillip Morris* courts found that the "opportunity to sell tobacco products . . . is analogous to the right to develop real property at issue in *Nollan*, but not to the benefit of an EPA registration as in *Ruckelshaus*."[130] This interpretation of *Ruckelshaus* should be rejected for several reasons.

First, an examination of the types of benefits the *Ruckelshaus* plaintiffs received for EPA registration and the potential benefits for compliance with the Disclosure Act reveal that the *Phillip Morris* courts' distinction between the two is unwarranted. The two schemes provide the same basic benefit—the right to sell commercial products to the public. The 1978 Amendments allowed the EPA to consider the health and safety information submitted by one manufacturer in the registration process for similar chemicals in applications by different manufacturers after a ten-year period of exclusive use for the original submitter, and provided for compensation to be paid to the original submitter of data.[131] However, under FIFRA's pre-1978 incarnation, information designated as a trade secret would never be released to other manufacturers by the EPA. Presumably, if a company wished to divulge its trade secrets during that period to another manufacturer, it could have privately negotiated for compensation. Indeed, the *Phillip Morris* courts appear to have retroactively created compensatory benefits for the *Ruckelshaus* plaintiffs that the *Ruckelshaus* Court itself had not contemplated. In

128. *Phillip Morris*, 159 F.3d at 677 (quoting *Nollan*, 483 U.S. at 834 n.2).

129. *Id.*

130. Amicus Brief, *supra* note 125, at 22.

131. Ruckelshaus v. Monsanto, 467 U.S. 986, 994-995 (1984).

its determination that registration was a fair and reasonable prerequisite for selling pesticides in this country, the Court did not list the many "benefits" brandished by the *Phillip Morris* courts; rather, the Court simply commented that plaintiffs could cease selling their products in the United States and choose to sell them in foreign markets only.[132]

Second, the *Phillip Morris* holdings contravene the public policy considerations affirmed in *Ruckelshaus*, as well as both takings and "right-to-know" law jurisprudence. In *Ruckelshaus*, the Court validated state use of broad regulatory power in cases like *Penn Central* and especially *Allard*, another case involving commercial transactions. The *Ruckelshaus* Court also followed *Eddy* and *National Fertilizer*, rejecting challenges to public disclosure laws on the grounds that the desire of manufacturers to keep trade secrets secret was subject to the state's exercise of police power in the interest of "fair dealing."[133] Since *Ruckelshaus*, other federal courts have upheld public health right-to-know laws against takings challenges.[134] Despite this case history, however, the *Phillip Morris II* court dismissed the value of public disclosure of commercial products, characterizing it as conferring only a "marginal benefit in increased public awareness"[135] and, as discussed above, ignoring the *Nollan* rational relation test.

Finally, what is perhaps the most alarming aspect of the *Phillip Morris* holdings is the creation of a vested right to sell tobacco products in state markets, the alteration of which must be compensated. This proposition is fundamentally inconsistent with *Penn Central*, where the Court rejected as meritless petitioners' claim that denial of a building permit entitled them to "payment of just compensation."[136] The *Phillip Morris* courts went far beyond

132. *Id.* at 1007.

133. *Eddy*, 249 U.S. at 431-32.

134. In N.J. State Chamber of Commerce v. Hughey, 600 F. Supp. 606 (D.N.J. 1985), the court rejected a challenge to the New Jersey Worker and Community Right to Know Act, which required employers to publicly reveal the presence of certain hazardous chemicals. Citing *Monsanto*, the court noted that "as long as the employer is aware of the conditions under which the data are submitted and as long as the conditions are rationally related to a legitimate government interest, a submission under the Right to Know Act does not constitute a taking." *Id.* at 628 (citing *Ruckelshaus*, 467 U.S. at 1007). In Mfrs. Assn. of Tri-County v. Knepper, 801 F.2d 130 (3rd Cir. 1996), the Third Circuit upheld an essentially identical challenge to the Pennsylvania Community Right to Know Act.

135. Phillip Morris, Inc. v. Harshbarger, 1997 U.S. Dist. LEXIS 21012, at *16-17 (D. Mass. Dec. 10, 1997).

136. Penn Central Transportation Co. v. New York City, 438 U.S. 104, 131 (1978).

affirming *Ruckelshaus's* finding that holders of trade secrets enjoy Fifth Amendment protections, using the takings clause and a novel interpretation of *Ruckelshaus's* benefit/burden paradigm to estop Massachusetts from passing laws or regulations that alter the ways in which the tobacco companies do business within the state. Indeed, the courts expanded the property interest in trade secrets from the basic right to exclude, and essentially placed a brand-new strand in the bundle of trade secret property rights: the right to have a market in which to sell one's property. This certainly contravenes *Ruckelshaus*'s explicit limitation of a trade secret holder's right to exclude competitors, not consumers. And even if *Nollan* is understood to stand for the proposition that a private landowner has an affirmative right to develop and build upon their own property, the parallel drawn by the *Phillip Morris* courts between the Nollans and the tobacco companies remains unprecedented. Under the *Phillip Morris* cases, not only do holders of trade secrets enjoy Fifth Amendment protections and the right to do as they please with their property, but also an apparent entitlement to have markets made available to sell their products. According to *Phillip Morris II*, "The ability to conduct (and, more especially, to continue to conduct) a lawful business in Massachusetts . . . simply is not analogous either in kind or in degree, to the benefit that effected the exchange and extinguished the takings claim in *Ruckelshaus*."[137] The *Phillip Morris III* court similarly rejected the contention that allowing the tobacco companies to "continue to do what they had been doing without burden before the enactment of the Disclosure Act"[138] was a benefit conferred for compliance with the Act. In response to objections to this unprecedented abridgment of the state's power to regulate commercial transactions and dangerous products, the *Phillip Morris III* court warned against "playing the 'police power' trump,"[139] and rejected the state's argument that "since Massachusetts law creates the protection for trade secrets, Massachusetts may withdraw that protection."[140] The *Phillip Morris* cases have profound public policy implications because they conflate the right to alienate private property with the right to alienate private property under preferable conditions, limited perhaps only by conditions placed upon past transactions. Millions of products are sold in this country, and the

137. Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670, 677 (1st Cir. 1998).

138. Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129, 144 (D. Mass. 2000).

139. *Id.* at 143.

140. *Id.* at 144.

state's ability to regulate the sale and distribution of those products remains a valuable safeguard of the public welfare. The *Allard* Court's conclusion that regulations in commercial transactions impose burdens in order to "secure the advantage of living and doing business in a civilized community" was quoted in *Ruckelshaus*, and supports the proposition that no taking occurs when the government "imposes new conditions on a pre-existing, lawful enterprise or even bans a business altogether, where . . . the regulation is a valid exercise of the police power to protect the health or safety of the public."[141] Whether these regulations are enacted to abate nuisances[142] or control local land uses,[143] it is absolutely essential that governments be given discretion to make new laws and alter old ones. A consideration of the alternative is instructive. The best case scenario would be the one rejected by the *Allard* Court: "To require compensation in all such circumstances would effectively compel the Government to regulate by *purchase.*"[144] And the worst-case scenario, of course, would simply be the cessation or drastic reduction of governmental regulation in the interest of public health and welfare. The *Phillip Morris II* court's characterization of the right to consider selling tobacco products in Massachusetts as not in and of itself being a benefit of "real value"[145] also raises serious questions about the types of benefits and privileges corporations already enjoy in our communities, a subject beyond the scope of this note.

Conclusion: The Troubling Legacy of the *Phillip Morris* Cases

In his critique of the Disclosure Act, Robert K. Hur suggests that Massachusetts could have achieved its public health goals with more narrowly tailored legislation.[146] However, it is worth noting that the *Phillip Morris* opinions are not narrow in scope. In fact, *Phillip Morris III* warns that any law allowing for any public disclosure of any ingredients in tobacco products would fail in court: "A partial disclosure would still be the disclosure of previously secret

141. Brief for Appellant at 44, *supra* note 124.

142. *See* Mugler v. Kansas, 123 U.S. 623 (1887); Miller v. Schoene, 276 U.S. 272 (1928); Hadachek v. Sebastian, 239 U.S. 394 (1915); Laurel Hill Cemetery v. City and County of San Francisco, 216 U.S. 358 (1910); Goldblatt v. Hempstead, 369 U.S. 590 (1962).

143. *See* Penn Cent. Transp. Co v. City of New York, 260 U.S. 393 (1922); Agins v. City of Tiburon, 447 U.S. 255 (1980).

144. Andrus v. Allard, 444 U.S. 51, 65 (1979).

145. Phillip Morris, Inc. v. Harshbarger, 159 F.3d 670, 676 (1st Cir. 1998).

146. Hur, *supra* note 73, at 473.

information in which the plaintiffs have a property interest."[147] Limited to their facts, the *Phillip Morris* holdings are significant to the future of tobacco regulation. Commonplace ingredients in cigarettes include poisonous and carcinogenic substances such as ammonia, cyanide, and butane.[148] The FDA has determined that tobacco consumption is the leading single cause of preventable death in the United States, with over 400,000 annual reported deaths from tobacco-related illnesses.[149] A government that cannot act to promote public health in the face of these facts is unreasonably constrained from performing its duties. However, the *Phillip Morris* holdings place severe restrictions on the scope of actions that a government might choose to undertake in furtherance of such a goal, precluding even the most basic labeling requirements that apply to countless other products sold on the market today.

The *Phillip Morris* holdings also provide a strong incentive for other producers and manufacturers of commercial goods, especially large, corporate plaintiffs, to contest public health and welfare laws through takings challenges. *Phillip Morris* retools basic factors in takings jurisprudence, prioritizing private property interests so much that they render other considerations virtually nonexistent. By simplifying takings law so that reasonable investment-backed expectations are unilaterally defined by opponents of governmental regulation, and essentially requiring a quid pro quo to validate governmental regulations which alter existing market conditions in commercial transactions, the *Phillip Morris* courts have surely helped make the world a safer place to manufacture and sell hazardous products.

147. Phillip Morris, Inc. v. Reilly, 113 F. Supp. 2d 129, 140 n.27 (D. Mass. 2000).

148. Hur, *supra* note 73, at 473 (citations omitted).

149. *See* FDA v. Brown & Williamson Tobacco Corp., 529 U.S. 120, 127-28 (2000) (citations omitted).