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TRADEMARK DILUTION AND CIRCUMSTANTIAL EVIDENCE: CAN SAVIN SAVE THE VICTORIA'S SECRET CASE?

by ROBERT C. BIRD*

*"[T]he nine justices, in a unanimous opinion, offered few details as to what level of proof [of dilution] would be required. Evidently, it's a secret."*¹

On March 4, 2003, the United States Supreme Court decided *Moseley v. V Secret Catalogue*.² In this case the Supreme Court attempted to resolve a single important issue, whether or not proof of "actual dilution" or merely evidence of a "likelihood of dilution" was necessary to satisfy a dilution claim under the Federal Trademark Dilution Act (FTDA).³ The FTDA allows any trademark holder to prevent the dilution of its mark by a competitor by obtaining an injunction or damages in court.⁴ The plaintiff in the *Moseley* case claimed that the defendant diluted the plaintiff's "Victoria's Secret" lingerie trademark by opening a store named "Victor's Secret" which sold adult clothing, novelties, and gifts. Resolving a circuit court split, the Court concluded that a litigant must show evidence of actual dilution in order to prove a successful dilution action. The Court reasoned that the FTDA's

* Assistant Professor, University of Connecticut.

¹ Unknown Author, *The Month in Fashion: Court Briefs*, W, May 2003, at 44.

² 537 U.S. 418 (2003).

³ 15 U.S.C. § 1125(e)(1) (2004).

⁴ *Id.*

statutory language required proof of actual dilution because the FTDA lacks any reference to the “likelihood of harm” language commonly found in state dilution statutes requiring a lower standard.

The Supreme Court justices likely hoped that such a decision would definitively settle the issue among the lower courts and promote harmonious judicial decisions. Unfortunately, as happens with many high court opinions, the decision itself raises more questions than it answers, making the litigant’s task of reading the judicial tea leaves for an accurate representation of the law all the more difficult. The court affirmed the actual dilution proof requirement, but remarked in dicta that direct evidence would not be necessary if dilution could be reliably proved through circumstantial evidence. The Court’s almost casual remark turns what could have been a definitive ruling into one that leaves room for significant ambiguity regarding the nature, quantity, and scope of circumstantial evidence that could override the Court’s actual dilution holding. It is unlikely that the Supreme Court will revisit this issue any time soon, leaving lower courts and academics to struggle over the question of under what conditions is actual proof of dilution not necessary in FTDA cases.

This article reviews the *Moseley* opinion, cites language in the decision that leaves open further questions about the true expanse of *Moseley*, and analyzes subsequent attempts to explain the cryptic *Moseley* language. Part I of this article introduces the concept of brand and brand dilution and underscores the importance of brand development and protection in today’s modern economy. This part then discusses brand dilution and brand dilution law from its earliest origins to the pre-*Moseley* legal environment. Part II of this article focuses on the *Moseley* case itself. This section will review the cases underlying the circuit split in the federal courts, discuss the *Moseley* case, and examine the brief but important dictum that has been a source of judicial confusion. Part III of this article will analyze the efforts made to interpret the *Moseley* opinion and review the attempts by courts and commentators to make sense of *Moseley*’s language, including an attempt by the Second Circuit in *Savin Corp. v. Savin Group*,⁵ decided on December 10, 2004. This segment concludes that while the various approaches have some merit, a combination of approaches would best effectuate the intent and purpose of the Supreme Court.

⁵ 391 F.3d 439 (2d Cir. 2004).

I. AN INTRODUCTION TO BRAND AND BRAND DILUTION

A. *The Underestimated Nature and Importance of Brand*

Although judges and lawyers frequently comment on legal issues impacting brands, the nature and importance of brands from a marketing perspective rarely enters the discussion. Indeed, judges have been criticized for ignoring the increasing importance of brand equity and brand loyalty.⁶ Marketers have long understood the true nature and importance of brand,⁷ and view brand through the overarching lens of brand equity. Brand equity has been defined as “[a] branding concept that recognizes the marketing and financial value associated with a brand apart from a product’s tangible attributes.”⁸ In the middle ages, brands were used as a “liability” mark enabling a purchaser to identify a faulty artisan. A brand did not guard against confusion, but rather protected its holder from the invasion of a guild’s monopoly.⁹

Branded products are commonly reinforced with different combinations of features—in essence transmitting quality and variety signals to the consumer.¹⁰ In other words, brands primarily identify products themselves and not the producers of those products.¹¹ Leading brands evoke even more than identify quality and variety. Famous brands such as Coca-Cola, Tiffany, Budweiser, Nike, McDonald’s and the like have

⁶ E.g., Harry S. Gerla, *Discounters and the Antitrust Laws: Faces Sometimes Should Make Cases*, 12 J. CORP. L. 1, 18 (1986) (criticizing a judicial opinion for “ignor[ing] the realities of modern retail marketing and the importance of nationally advertised brands. . .”).

⁷ *Id.* at 20 n.122 (citing A. MARSHALL, *INDUSTRY AND TRADE* 301-02 (1920) (indicating that some branded goods had such a hold over the public’s imagination that retailers could not refuse to carry them “without driving away customers”) and Fogg-Meade, *The Place of Advertising in Modern Business*, 9 J. POL. ECON. 218, 242 (1901) (“retailers state that they are obliged to keep the heavily advertised articles on the shelves although there is no profit in their sale”).

⁸ JERRY M. ROSENBERG, *DICTIONARY OF MARKETING AND ADVERTISING* 39 (1995). See also Pete Dorn, *Brand Equity: Beauty’s Holy Grail*, *WOMEN’S WEAR DAILY* 10 (September 19, 1997) (interviewing Fred Langhammer, President and Chief Operating Officer of Estee Lauder Companies, who stated, “[b]rand equity is about consumers, it’s about the attitudes, it’s about the associations, it’s about the images and the perceptions of a lifestyle or a value system.”).

⁹ Jerre B. Swann & Theodore H. Davis, Jr., *Dilution, An Idea Whose Time Has Gone; Brand Equity as Protectable Property, the New/Old Paradigm*, 84 *TRADEMARK REP.* 267, 270 (1994).

¹⁰ *Id.*

¹¹ See, e.g., *Mishawaka Rubber & Wollen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942) (noting the “commercial magnetism” that a trademark can place in “the atmosphere of the market with the drawing power of a congenial symbol.”).

images that extend beyond the products themselves.¹² These “super-brands” have their own personalities that suggest feelings of quality, family, and Americana.¹³ Accordingly, Consumers pay a premium for a personal benefit beyond product quality.¹⁴

These and other major brands can have positive effects on other products under the brand owner’s umbrella. Owners can use brand leveraging by placing their mark on unrelated items such as T-shirts and sweaters.¹⁵ Brands gain their own “personality” which can impact related products.¹⁶ Brand owners also implement brand extensions by extending the goodwill of a mark to related goods.¹⁷ This in turn increases revenue and expands the reach and fame of the original brand.

Brand equity has become so valuable that its presence is accounted for in other business functions. Acquiring entities pay far more than book value for a target company if that company has valuable brands under its control. For example, in the late 1980’s Philip Morris purchased Kraft Foods and Breyer’s ice cream for \$12.9 billion, four times Kraft’s book value of tangible assets.¹⁸ Brand equity is not represented

¹² Swann & Davis, *supra* note 9, at 272-73. See also Ellen P. Winner, *Right of Identity: Right of Publicity and Protection for a Trademark’s “Persona”* 71 TRADEMARK REP. 193 (1981).

¹³ See Joseph T. Plummer, *How Personality Makes a Difference*, 24 J. ADV. RES. 27, 28 (Dec. 1984/Jan. 1985). One commentator has observed:

Consider the gift of a Tiffany bracelet. For most, opening of a Tiffany package will feel different from opening a Macy’s package – the feeling will be more intense, more special. Further, the wearing of a Tiffany bracelet may even make the wearer feel more attractive and confident than if that same bracelet had been purchased at a department store. The associations of prestige and quality are hypothesized to actually change the use experience, to add value to the brand.

DAVID A. AAKER, *MANAGING BRAND EQUITY: CAPITALIZING THE VALUE OF A BRAND NAME* 161 (1991).

¹⁴ Swann & Davis, *supra* note 9, at 272 n.26. *But cf.* Ronald K. L. Collins & David M. Skover, *Commerce and Communications*, 71 TEXAS TECH L. REV. 697, 698 (1993) (supporting regulation of image advertising because it promotes “fantasized decisions by the consumer”).

¹⁵ See *e.g.*, Charles M. Grimes & Gregory J. Battersby, *Merchandising Revisited*, 76 TRADEMARK REP. 271 (1986).

¹⁶ Plummer, *supra* note 13, at 28.

¹⁷ “Of the 6,125 new products placed on shelves in the first five months of 1991, just 5% bore new brand names . . . Roughly 9 out of 10 new brands fail, according to marketers, and a mistake can cost dearly.” Mark Landler, Zachary Schiller, and Lois Therrien, *What’s in a Name? Less and Less*, BUSINESS WEEK 66, 67 (July 8, 1991).

¹⁸ Swann & Davis, *supra* note 9, at 275 n.35. See also Thomas D. Drescher, *The Transformation and Evolution of Trademarks – From Signals to Symbols to Myth*, 82 TRADEMARK REP. 301, 302-03 (1992); *The Year of the Brand*, THE ECONOMIST 95 (Dec. 24, 1988).

on balance sheets.¹⁹ Yet, companies pledge their brands as collateral for loans.²⁰ Brands are considered property of a bankruptcy estate under section 504 of the Bankruptcy Code.²¹ The IRS treats brands as assets requiring capital gains treatment under the Internal Revenue Code.²²

Brands are simply so valuable because they instantly convey a wealth of positive information about a product -- quality, features, price, and a wealth of other attributes. A consumer may implicitly view a powerful brand as a trusted companion that generates positive associations with memories and experiences in the consumer's life. Brands develop strong consumer loyalty, provide a "reason-to-buy," support extensions, leveraging, and afford a myriad of competitive advantages.²³

The underlying theme through the above discussion is the marketer's view of brand is dominated by an overarching theme -- value. Brand equity is the primary manifestation of that value, and marketers go to great pains to develop that equity in the minds of consumers. This equity is defined in terms of recognizability, likeability, reliability, and communication value of the brand. A brand definition from a marketer's perspective, so much as one definition is possible, necessarily evokes a thing used by a company to indicate its products that has value in the relevant marketplace. This value function drives the marketing definition of brand—and is the core of a brand's inherent meaning. Understanding the nature and power of brand equity highlights the critical importance of the following section -- the dilution of brand equity by a competitor.

B. The Dilution of Brand: The Development of a Legal Standard

Legal scholars define brand as a type of trademark which is defined simple as a word or symbol used by companies or to distinguish or identify goods and services.²⁴ A trademark protects its owner from competing products diluting or confusing the power of the mark.

¹⁹ See JOHN MURPHY, BRAND STRATEGY 149-50 (1990). When Guinness revaluated its assets accounting for brand equity, it added 1.695 billion pounds in value. Nikki Tait, *Guinness Puts Value on Brands*, FINANCIAL TIMES 1 (Feb. 24, 1989).

²⁰ Paul J. Heald, *Resolving Priority Disputes in Intellectual Property Collateral*, 1 J. INT. PROP. L. 135 (1993).

²¹ See Richard Lieb, *The Interface of Trademark and Bankruptcy Law*, 78 TRADEMARK REP. 307, 316 (1988).

²² Swann & Davis, *supra* note 9, at 275-76; see also Daniel A. Izzo, *Contingent Payment Transfers of Trademarks: A Sale in License Clothing*, 12 VIRGINIA TAX REV. 263, 264-65 (1992).

²³ Swann & Davis, *supra* note 9, at 276-77; see also Aaker, *supra* note 13.

²⁴ Lynda J. Oswald, *"Tarnishment" and "Blurring" Under the Federal Trademark Dilution Act of 1995*, 36 AM. BUS. L. J. 255, 256 (1999).

Trademark holders may pursue an action for trademark infringement, which has its basis in the tort of deceit.²⁵ Other tools of protection include actions for tarnishment and blurring.²⁶ This section will focus on the nature of dilution and the legal standards underlying dilution actions.

The earliest calls for a dilution-type theory originated from an influential book written by Frank I. Schechter written in 1925.²⁷ Schechter challenged prevailing wisdom that senior marks could only challenge similar junior marks²⁸ if the junior mark was used on a similarly competing product.²⁹ He argued that trademarks signify quality more than source.³⁰ Thus, Schechter reasoned, a junior mark's unauthorized use of a senior mark injures the senior mark holder even if the junior mark is not in direct competition.³¹ Schechter did not use the term dilution directly, but rather sought to attack the notion that injury to trademarks arise only from directly competing uses in the marketplace. Schechter expanded upon this theory by calling for a new theory of trademark protection whose purpose was to defend trademarks because of their uniqueness, distinction, and selling power.³² Schechter viewed the purpose of trademark law as preventing the weakening of brand identity in the minds of consumers,³³ a notably similar concept that underlies modern dilution theory.³⁴ Some commentators mark this discussion as the inception of modern dilution theory.³⁵

Although Schechter's dilution theory eventually gained widespread approval, its acceptance was far from immediate. In 1932, Schechter testified before Congress advocating for a federal trademark statute, but

²⁵ *Id.* at 259.

²⁶ See generally *Id.* See also Christopher R. Perry, Note, *Trademarks as Commodities: The "Famous" Roadblock to Applying Trademark Dilution Law in Cyberspace*, 32 CONN. L. REV. 1127 (2000).

²⁷ FRANK I. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS* (1925).

²⁸ "[A] 'Senior' mark is defined as the trademark of comparatively greater recognition, usually because it is first in time or is a stronger mark in the relevant market. [A] '[j]unior' mark is defined as the trademark of lesser recognition." I.P. Lund Trading ApS v. Kohler Co., 11 F. Supp.2d 112, 114 n.3 (D. Mass. 1998).

²⁹ SCHECHTER, *supra* note 27, at 146-71.

³⁰ *Id.* at 166.

³¹ *Id.* at 166-67.

³² Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 818-19 (1927).

³³ *Id.* at 818.

³⁴ *Id.* at 825.

³⁵ See Thomas R. Lee, *Demystifying Dilution*, 84 B.U. L. REV. 859, 867 n.41 (2004) (citing sources reaching this conclusion).

without success.³⁶ In 1946, Congress passed the Lanham Act, the first comprehensive federal trademark regime.³⁷ Congress passed the Lanham Act without a dilution statute.³⁸ In 1947, Massachusetts became the first state to enact a trademark dilution statute.³⁹ New York, Georgia, and Illinois enacted similar statutes.⁴⁰ The United States Trademark Association encouraged the adoption of dilution provisions by including one in its Model State Trademark Bill.⁴¹ Over time, states continued to adopt anti-dilution measures, with at least one-half of states having such measures by the mid 1990s.⁴²

³⁶ *Id.* at 868-69 (citing Hearings Before the House Committee on Patents, 72d Cong. 8-17 (1932) (statement of Frank I. Schechter)).

³⁷ *Id.* at 869 (citing Trademark Act of 1946, ch. 540, 60 Stat. 427 (1946)).

³⁸ *Id.*

³⁹ The current version of the statute may be found at MASS. GEN. L. ch. 110B § 12 (1999). The statute states:

Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark registered under this chapter, or a mark valid at common law, or a trade name valid at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services.

See also Jarrod Thrash, Comment, *Victoria's Secret is not Safe With the Supreme Court: The Court Makes its Foray Into the Make-Believe World of the FTDA*, 6 TUL. J. TECH & INTELL. PROP. 199, 203-204 (2004).

⁴⁰ Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 812-14 (1997). Although states increasingly adopted anti-dilution provisions, the statutes did little to protect trademark holders as courts appeared reluctant to enforce them. Oswald, *supra* note 24, at 267. Between 1933 and 1977, not a single court enforced state dilution statutes. *Id.* The lone exception was *Polaroid Corp. v. Polaroid, Inc.*, 319 F.2d 830 (7th Cir. 1963), which found that the use of "Polaroid" by a heating and refrigeration firm diluted the value the "Polaroid" mark held by the camera company. *Id.* at 837. See also Kenneth L. Port, *The "Unnatural" Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?*, 18 SETON HALL LEGIS. J. 433, 439-40 (1994) (calling the Polaroid case the "only significant dilution development" in dilution law between 1930 and 1977). The court may have realized the dormant state of affairs underlying dilution law when it commented:

The record discloses there were numerous incidents of confusion as to identity of the parties . . . the conclusion is inescapable that such would be the result . . . [i]f the Anti-dilution Statute is not applicable to this situation, it is useless because it adds nothing to the established law on unfair competition[.]

Polaroid, 319 F.2d at 837.

After 1977, plaintiffs increasingly included dilution claims in trademark infringement actions, but the judicial response was only marginally more successful. In 159 federal appellate cases between 1977 and 1994 that involved dilution claims, only ten courts granted injunctions based at least in part on dilution theory. Oswald, *supra* note 24, at 268.

⁴¹ A current version of the bill may be found at <http://www.inta.org/policy/mstb.html> (last visited Feb. 22, 2005).

⁴² Lee, *supra* note 35, at 871 n.71 (citing state statutes).

In 1996, Congress amended section 43 of the Lanham Act to provide a new cause of action for federal trademark dilution. The Act as amended stated that “[t]he owner of a famous mark shall be entitled . . . to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark.”⁴³ The Act defined dilution as “the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—(1) competition between the owner of the famous mark and other parties, or, (2) likelihood of confusion, mistake, or deception.”⁴⁴ Later courts have interpreted what is currently known as the FTDA as requiring that a plaintiff establish four elements of proof: “(1) [the plaintiff’s] mark is famous; (2) the defendant is making commercial use of the mark in commerce; (3) the defendant’s use began after the mark became famous; and (4) the defendant’s use of the mark dilutes the quality of the mark by diminishing the capacity of the mark to identify famous goods and services.”⁴⁵ For the first time, federal law prohibited dilution of a famous mark. The following section examines one of the most important interpretations of the FTDA to date, *Moseley v. V Secret Catalogue*.⁴⁶

II. WHAT PROOF OF DILUTION IS NECESSARY?: BEFORE AND AFTER THE MOSELEY CASE

A. *The Road to Moseley: A Circuit Split*

Soon after the FTDA’s anti-dilution measure came into force, courts began to differ as to how exactly the dilution provision should be implemented. One of the most significant debates arose from whether the FTDA requires a plaintiff to show actual dilution or merely a likelihood of dilution in order to present a successful claim under the Act. This debate began in earnest in *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*.⁴⁷ In this case, Ringling Bros.-Barnum & Bailey Combined Shows, Inc. (Ringling Brothers) claimed that the defendant Utah Division of Travel Development (Utah) improperly diluted its “Greatest Show on Earth”

⁴³ 15 U.S.C. § 1125(e)(1) (2004).

⁴⁴ 15 U.S.C. § 1127 (2004).

⁴⁵ *E.g.*, *Savin Corp. v. Savin Group*, 391 F.3d 439, 449 (2d Cir. 2004); *Ringling Bros. v. Utah Div. of Travel Development*, 170 F.3d 449, 452 (4th Cir. 1999); *Panavision Int’l L.P. v. Toeppen*, 141 F.3d 1316, 1324 (9th Cir. 1998); *Pinehurst, Inc. v. Wick*, 256 F. Supp. 2d 424, 431 (M.D.N.C. 2003).

⁴⁶ 537 U.S. 418 (2003).

⁴⁷ 170 F.3d 449 (4th Cir.), *cert. denied*, 528 U.S. 923 (1999).

trademark by using the phrase “Greatest Snow on Earth” to attract tourists to Utah.⁴⁸ Utah used its version of the mark on license plates and in advertisements almost continuously since 1962.⁴⁹ The famous catchphrase used by Ringling Brothers dates back to 1872.⁵⁰

In 1996, Ringling Brothers sued Utah in federal court and after a bench trial, the court found in favor of Utah.⁵¹ On appeal, Ringling Brothers contended that dilution occurs whenever a junior mark is sufficiently similar to a senior mark that persons viewing them will instinctively make mental associations between the two.⁵² Under this interpretation of the Act, the viewer’s knowledge of the goods or services involved is irrelevant.⁵³ All that is necessary to prove dilution is that the viewer perceives sufficient similarities between the two marks.⁵⁴ Accordingly, Ringling Brothers concluded that the “Snow” and “Show” phrases were so obviously similar that no other evidence was required to establish conflicting mental associations and therefore dilution.⁵⁵

After a lengthy review of trademark law’s seventy-five year history,⁵⁶ the court concluded that most statute anti-dilution statutes required only proof of a likelihood of dilution rather than proof of actual dilution to entitle a claimant to injunctive relief.⁵⁷ The court used the statute statutory approaches to shed light on the contrasting provisions of the federal Act.⁵⁸ For example, while the Model State Trademark Act typically adopted by states permits injunctions when a junior mark created a “[l]ikelihood of . . . dilution of the distinctive quality of a [senior] mark,”⁵⁹ the federal Act contained no such likelihood language.⁶⁰ The court thus concluded that the plain language of the federal Act provides a remedy only upon proof of actual dilution and not the mere likelihood of dilution that governs most state statutes.⁶¹ While conceding that its interpretation was “stringent interpretation of ‘dilution’ under the federal Act,”⁶² the court reasoned that because the

⁴⁸ *Id.* at 451.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.* at 452.

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.* at 453-57.

⁵⁷ *Id.* at 458.

⁵⁸ *Id.*

⁵⁹ *Id.* at 456 (citing Model State Trademark Act § 12 (1964)). *See also* MASS. GEN. L. ch. 110B § 12 (1999).

⁶⁰ *Id.* at 458.

⁶¹ *Id.*

⁶² *Id.*

federal Act had different statutory language, that the narrower interpretation was the one intended by Congress.⁶³

This decision appeared to stand as the leading federal appellate decision on the issue until the Second Circuit published its opinion a few months later in *Nabisco, Inc. v. PF Brands, Inc.*⁶⁴ In this case, Nabisco, Inc. (Nabisco) developed a “CatDog” snack food. The snack food was developed as a joint promotion between Nabisco and the Nickelodeon Television Network, which was at the time broadcasting a widely popular cartoon show featuring a two-headed creature called CatDog.⁶⁵ The snack featured small orange crackers in three different shapes, a CatDog cartoon character, a bone, and a fish. The fish cracker closely resembled the long-standing and widely popular PF Brands, Inc. (Pepperidge Farm) “Goldfish” crackers.⁶⁶

When Pepperidge Farm executives learned of the CatDog product and its suspiciously similar goldfish, the firm contacted Nabisco protesting the fish and requesting that Nabisco cease and desist using the cracker in its product.⁶⁷ In response, Nabisco sued Pepperidge Farm seeking a declaratory judgment that Nabisco’s CatDog product did not violate any Pepperidge Farm’s trademarks.⁶⁸ Pepperidge farm quickly counterclaimed alleging that Nabisco’s fish cracker infringed upon its trademark and diluted its Goldfish brand.⁶⁹ The trial court found for Pepperidge Farm on its dilution claim.⁷⁰

On appeal, the appellate court considered whether the trial court properly concluded that Pepperidge Farm proved its dilution claim. After concluding that Pepperidge Farm’s Goldfish was sufficiently distinctive to satisfy the Act,⁷¹ and applying a list of factors to determine whether dilution occurred,⁷² the court considered the quantum of evidence necessary to prove dilution under federal law. Nabisco directly relied on the holding in *Ringling Brothers*,⁷³ arguing that the FTDA requires proof of actual dilution rather than a mere likelihood.⁷⁴ Pepperidge farm contended that a lesser standard was sufficient.

⁶³ *Id.* at 458-59.

⁶⁴ 191 F.3d 208 (2d Cir. 1999).

⁶⁵ *Id.* at 213.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.* The trial court also concluded that Pepperidge Farm had not proved its federal trademark infringement claim or its state unfair competition claims. *Id.*

⁷¹ *Id.* at 216.

⁷² *Id.* at 217-22.

⁷³ *Ringling Brothers*, 170 F.3d at 464.

⁷⁴ *Nabisco*, 191 F.3d at 223.

The Second Circuit disagreed with the *Ringling Brothers* requirement that courts cannot infer dilution from contextual factors and can only rely on evidence of actual revenue loss or skillfully constructed consumer surveys.⁷⁵ The court remarked that “[t]his strikes us as an arbitrary and unwarranted limitation on the methods of proof.”⁷⁶ The court reasoned that it would be highly difficult that a showing of diminished revenue could be solely attributed to the dilution of a particular trademark.⁷⁷ The court also called consumer surveys “expensive, time consuming and not immune to manipulation.”⁷⁸ While recognizing that the federal statute uses the language “causes dilution” rather than “likelihood of dilution,” the court reasoned that using this difference to require actual dilution constitutes an “excessive literalism to defeat the intent of the statute.”⁷⁹ The court stated that the *Ringling Brothers* reasoning would subject the senior mark to an unrecoverable injury.⁸⁰ As the statute would require proof of actual dilution of harm, and the statute in most cases only allows for an injunction, such an injury could never be compensated in court.⁸¹ Furthermore, the holder of the junior mark would also suffer under the *Ringling Brothers* interpretation. A junior user seeking to determine whether or not its mark is permissible before it enters the market can longer seek a declaratory injunction because no actual dilution has yet occurred.⁸² The Second Circuit refused to apply the Sixth’s Circuit’s stringent standard, and allowed the trial court’s preliminary injunction to stand.⁸³

Other circuits weighed in on this issue over time. The Fifth Circuit adopted the Fourth Circuit’s proof of actual dilution approach in

⁷⁵ *Id.* See also *Johnson v. Revenue Mgmt Corp.*, 169 F.3d 1057, 1063 (7th Cir. 1999) (Eschbach, J., concurring) (stating that “survey evidence in trademark and trade dress cases can be very costly”); *Castrol, Inc. v. Penzoil Co.*, 987 F.2d 939, 951 (3d Cir. 1993) (calling consumer surveys a “time consuming and expensive task”); *Lon Tai Shing Co., Ltd. v. Koch + Lowy*, 1991 WL 170734 at *19 n.15 (S.D.N.Y. 1991) (stating that cost of conducting a proper consumer survey in a trademark dispute could reach \$65,000). See generally Robert C. Bird, *Streamlining Consumer Survey Analysis: An Examination of the Concept of Universe in Consumer Surveys Offered in Intellectual Property Litigation*, 31 BUS. L. REV. 1 (1998) (discussing consumer surveys); Thomas W. Edman, Note, *Lies, Damn Lies, and Misleading Advertising: The Role of Consumer Surveys in the Wake of Mead Johnson v. Abbott Labs*, 43 WM. & MARY L. REV. 417 (2001) (similar).

⁷⁶ *Nabisco*, 191 F.3d at 223.

⁷⁷ *Id.* at 224.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ *Id.* Damages are available in a dilution action if the dilution committed by the junior mark is willful. *Id.* (citing 15 U.S.C. § 1125(c)(2)).

⁸² *Id.*

⁸³ *Id.* at 224-25.

Westchester Media v. PRL USA Holdings.⁸⁴ The Seventh Circuit followed the Second Circuit's multi-factor likelihood of dilution approach in *Eli Lilly & Co. v. Natural Answers, Inc.*⁸⁵ Various district courts followed the Fourth Circuit test.⁸⁶ The judicial stage was set for a definitive answer by the United States Supreme Court, and that answer came in *V Secret Catalogue, Inc. v. Moseley*.⁸⁷

B. *The Moseley Case*

The facts underlying the Supreme Court dispute began innocuously enough. In February of 1998, Victor and Cathy Moseley advertised in a local publication the grand opening of their new store "Victor's Secret."⁸⁸ The ad highlighted intimate lingerie, romantic lighting, and adult novelties and gifts.⁸⁹ A reader of the ad took offense to what he perceived as a misuse of reputable company's trademark and sent a copy of the advertisement to V Secret Catalogue, Inc. (Victoria's Secret).⁹⁰ Victoria's Secret demanded that the Moseley's immediately discontinue the use of the "Victor's Secret" name.⁹¹ In response, the Moseleys changed their store name to "Victor's Little Secret."⁹² This did not satisfy Victoria's Secret and the firm filed an action against the Moseleys claiming trademark infringement, unfair competition, and dilution under both state and federal laws.⁹³ After discovery, the federal district court granted summary judgment in favor of the Moseleys on Victoria's Secret's infringement and unfair competition claims.⁹⁴ The court ruled in favor of Victoria's Secret, however, on its dilution claim.⁹⁵

⁸⁴ 214 F.3d 658, 670-71 (5th Cir. 2000).

⁸⁵ 233 F.3d 456, 468 (7th Cir. 2000). The Seventh Circuit might have adopted the likelihood of dilution standard in *Syndicate Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 633 (7th Cir. 1999), but language implying a likelihood test appeared in dictum and never specifically addressed a standard of proof. *Id.* at 639.

⁸⁶ *E.g.*, *Playboy Enters., Inc., v. Netscape Comm. Corp.*, 55 F. Supp. 2d 1070, 1088 (C.D. Cal. 1999); *World Gym Licensing, Ltd. v. Fitness World, Inc.*, 47 F. Supp. 2d 614, 625 (D. Md. 1999).

⁸⁷ 537 U.S. 418 (2003).

⁸⁸ *Id.* at 423.

⁸⁹ *Id.*

⁹⁰ *Id.* The ad was published in a publication intended for residents of the Fort Knox military installation in Fort Knox, Kentucky. *Id.* An army colonel saw the ad and contacted Victoria's Secret. *Id.*

⁹¹ *Id.*

⁹² *Id.*

⁹³ *Id.* at 423-24.

⁹⁴ *Id.* at 425 (citing *V Secret Catalogue, Inc. v. Moseley*, 2000 WL 370525 (W.D. Ky. 2000)).

⁹⁵ *Id.*

On appeal, the Sixth Circuit affirmed the trial court's conclusion and adopted the likelihood standard of proof adopted by the Second Circuit in *Nabisco, Inc. v. PF Brands, Inc.*⁹⁶ The Sixth Circuit also expressly rejected the Fourth Circuit's actual dilution standard in *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*.⁹⁷ The Sixth Circuit concluded that the *Nabisco* approach best tracks the language of the statute and best follows Congressional intent in enacting the FTDA.⁹⁸ The court also focused on legislative history stating characterizing dilution as "an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark."⁹⁹ The court stated that this language showed Congressional intent to provide a broad remedy for dilution claims and to provide a remedy before dilution has actually caused economic harm.¹⁰⁰ The Supreme Court granted certiorari to resolve the conflict between the circuits.¹⁰¹

The Court then resolved the circuit split. With minimal discussion, the Court concluded that the linguistic differences between the state and federal dilution statutes shows that the "causes dilution" language of the federal Act "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution."¹⁰² The Court also relied upon the definition of dilution itself for support.¹⁰³ The statute defines dilution as the "lessening of a capacity of a famous mark" and does not use the likelihood language until subsection two of the statute.¹⁰⁴ As a result, the Court reversed the Sixth Circuit's decision applying the likelihood of dilution standard.

The Court could have simply adopted the Fourth Circuit's opinion and reasoning, thus articulating a clear though difficult standard of proof. The Court did agree with the Fourth Circuit in that "at least where the marks at issue are not identical, the mere fact that consumers mentally associate the junior's user's mark with the famous mark is not sufficient to establish actual dilution."¹⁰⁵ However, the Court did not follow the Fourth Circuit completely. The Court disagreed with the *Ringling Brothers* case insofar as it required that the consequences of dilution, such as actual loss of sales or profits, must be proved.¹⁰⁶

⁹⁶ *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464, 468-69 (6th Cir. 2001).

⁹⁷ *Id.* at 475.

⁹⁸ *Id.*

⁹⁹ *Id.* (citing H.R. Rep. no. 104-374 (1995), reprinted in 1996 U.S.C.C.A.N. 1029, 1032).

¹⁰⁰ *Id.* at 476.

¹⁰¹ *Moseley v. V Secret Catalogue, Inc.*, 535 U.S. 985 (2002) (granting certiorari).

¹⁰² *Moseley*, 537 U.S. at 433.

¹⁰³ *Id.* (citing 15 U.S.C. § 1127).

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

Instead, the Court concluded that where marks at issue were not identical, the mere presence of mental association between the marks does not establish actual dilution.¹⁰⁷ However, the Court never states what standard of proof replaces the *Ringling Brothers* test. The Court thus leaves a substantive gap as to what exact proof is necessary to show actual dilution.

Finally, Victoria's Secret and allied *amici* argued that proving actual dilution would prove difficult because consumer surveys and other means to prove actual dilution are expensive and unreliable.¹⁰⁸ In response, the Court stated that "[i]t may well be, however, that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proved through circumstantial evidence—the obvious case is one where the junior and senior marks are identical." Unfortunately, the Court did not offer any guidance as to what constitutes sufficient circumstantial evidence and whether identical marks was only condition circumstantial evidence may be used to prove actual dilution. The section examines the uncertain implications of this circumstantial evidence exception.

III. CIRCUMSTANTIAL EVIDENCE IN A POST-MOSELEY WORLD: INTERPRETATIONS AND IMPLICATIONS

There is little doubt that the Supreme Court's circumstantial evidence exception has produced confusion. One commentator noted that the Moseley dicta presented "only a vague, initial hint" as to the role of circumstantial evidence in dilution cases.¹⁰⁹ Another author called the language "ambiguous."¹¹⁰ One federal district court commented that the Moseley dicta was "not easy to interpret" and openly queried "[i]s the Court saying, as plaintiff maintains, that when the junior and senior marks are identical, that in itself is sufficient circumstantial evidence to prove actual dilution . . . [o]r is the Court saying that circumstantial evidence of actual dilution . . . is sufficient when the marks are identical?"¹¹¹ Even the notable Justice Richard Posner of the Seventh Circuit Court of Appeals commented on the *Moseley* dicta, stating that, "[t]he Court did not explain and no one seems to know what that

¹⁰⁷ *Id.*

¹⁰⁸ *Id.* at 434.

¹⁰⁹ Lee, *supra* note 35, at 882.

¹¹⁰ Brian A. Jacobs, Note, *Trademark Dilution on the Constitutional Edge*, 104 COLUM. L. REV. 161, 170 (2004).

¹¹¹ *Savin Corp v. Savin Group*, 2003 WL 22451731 at *14 (S.D.N.Y. 2003).

‘circumstantial evidence’ might be.”¹¹² As a result, courts and commentators have attempted to fill the gap. This part will review the various approaches and critique each part in turn.

A. The McCarthy and Lee Approaches

Professor J. Thomas McCarthy’s notable treatise on Trademarks and Unfair Competition was one of the first to attempt to untangle the Court’s cryptic circumstantial language.¹¹³ McCarthy concluded that *Moseley* created two categories of dilution cases.¹¹⁴ The first category encompassed cases where the two conflicting marks are identical to one another.¹¹⁵ In this situation, McCarthy remarks, the identical nature of the marks may be sufficient on its own to establish actual dilution.¹¹⁶ For example, the unlicensed use of “Rolex” on golf clubs would clearly dilute the senior and identical “Rolex” mark related to watches would not require direct evidence to show dilution.¹¹⁷ However, if the senior mark is not of a purely coined, fanciful nature,¹¹⁸ such as “Dell” computers, “Saturn” autos, and “Polo” apparel, then the senior mark

¹¹² Ty Inc. v. Softbelly’s Inc., 353 F.3d 528, 536 (7th Cir. 2003). Judge Posner also critiqued *Moseley*’s requirement of direct evidence, including consumer surveys:

After the district court’s ruling, the Supreme Court held in the *Victoria’s Secret* case cited above that the statute requires proof of “actual dilution,” implying a need for trial-type evidence to determine, in the words of the Court, whether there has been “any lessening of the capacity of the *Victoria’s Secret* mark to identify and distinguish goods or services sold in *Victoria’s Secret* stores or advertised in its catalogs.” 537 U.S. at 434, 123 S.Ct. 1115. We are not sure what question could be put to consumers that would elicit a meaningful answer either in that case or this one. (We are not alone in having these doubts. Jonathan Moskin, “*Victoria’s Big Secret: Whither Dilution Under the Federal Dilution Act?*,” 93 *Trademark Rep.* 842, 853 (2003))

Id. at 535.

¹¹³ See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION (4th ed. 2003).

¹¹⁴ *Id.* at § 24:94.2.

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ The term fanciful has been defined generally to mean, “created in the fancy; unreal; tending to indulge in fancy; showing invention or whimsy in design; imaginative.” *State v. Smith*, 655 N.W.2d 347 (Minn. App. 2003), *rev’d on other grounds*, 674 N.W.2d 398 (Minn. 2004). Fanciful in the trademark context “consist[s] of ‘coined’ words which have been invented for the sole purpose of functioning as a trademark. Such marks comprise words which are either totally unknown in the language or are completely out of use at the time, as with obsolete or scientific terms.” *McGraw-Edison Co. v. Walt Disney Productions*, 787 F.2d 1163, 1171 (7th Cir. 1986). A coined mark is a “word devised or invented for the purpose of identifying the product.” *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 611 n.2 (7th Cir.1965).

owner must produce additional evidence beyond the usage of the identical term to establish dilution.¹¹⁹ For example, if the “Amazon” web site challenged the brand “Amazon” on survival equipment, it would have to show additional evidence such as consumer surveys to establish dilution.¹²⁰

McCarthy’s second category encompasses non-identical marks. Dilution of these marks must be established through either expert testimony or survey evidence.¹²¹ Expert testimony would consist of a marketing expert concluding that the famous mark would lose selling power due to the dilutive impact of a junior mark.¹²² McCarthy would not require a proof of actual losses, as *Moseley* stated that such a finding is not necessary to prove damages.¹²³ McCarthy also described various consumer surveys that would suffice to prove actual dilution.¹²⁴

Thomas R. Lee questions McCarthy’s approach and offers his own interpretation of the *Moseley* dicta in his thoughtful 2004 article, *Demystifying Dilution*.¹²⁵ Lee contends that McCarthy’s approach is “seriously misguided” and which arises from a misunderstanding of dilution as somehow different or incomparable to traditional trademark infringement.¹²⁶ Lee believes that *Moseley* need not be read as offering a rigid two-track standard for dilution claims.¹²⁷ On the issue of necessary proof, the *Moseley* court only held that Victoria’s Secret had failed to present sufficient evidence of dilution to sustain summary judgment in its favor.¹²⁸ Although the court used “unfortunate dictum” regarding the absence of evidence in the record, the *Moseley* opinion does not require a rigid two-track standard like McCarthy envisions.¹²⁹

Lee harmonizes the *Moseley* language requiring actual dilution and the subsequent exception allowing circumstantial evidence under certain circumstances in different way. Lee envisions a “sliding scale”

¹¹⁹ MCCARTHY, *supra* note 113, at § 24:94.2.

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.* (citing P.M. Bible, *Defining and Quantifying Dilution Under the Federal Trademark Dilution Act of 1995: Using Survey Evidence to Show Actual Dilution*, 70 U. COLO. L. REV. 295 (Winter 1999); W.G. Barber, *How to do a Trademark Dilution Survey (or Perhaps How Not to do One)*, 89 TRADEMARK REP. 616 (1999); and E.A. Prager, *The Federal Trademark Dilution Act of 1995: Substantial Likelihood of Confusion*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 121, 132 (1996)).

¹²⁵ 84 B.U. L. REV. 859 (2004).

¹²⁶ *Id.* at 911.

¹²⁷ *Id.* at 912.

¹²⁸ *Id.* (citing *Moseley*, 537 U.S. at 434 (“The evidence in the present record is not sufficient to support the summary judgment on the dilution count.”)).

¹²⁹ *Id.*

of proof with completely identical marks and utterly dissimilar marks falling at either end of the spectrum. On the one extreme, completely identical marks would require no additional evidence to show actual dilution.¹³⁰ On the other extreme, a plaintiff attacking a dissimilar mark would have to present direct evidence through surveys or other formats to establish dilution.¹³¹ According to Lee, “the need for direct evidence will increase as the junior mark’s similarity to the famous mark decreases.”¹³²

Both approaches have significant merit. McCarthy’s two-track standard directly implements *Moseley*’s judicial command. The *Moseley* court’s primary ruling was that evidence of actual dilution, not a mere likelihood of dilution, was necessary to prove a dilution claim under the FTDA. The McCarthy standard embodies this requirement by requiring direct evidence of expert testimony and consumer surveys in all cases except for the narrow situation which the marks are identical and of a coined fashion.¹³³ The McCarthy standard establishes a high burden in most dilution cases, and this follows the letter as well as the language in *Moseley*. In *Moseley*, Victoria’s Secret presented evidence of the similarity of items sold in the parties’s stores, the famousness of the mark, and the enormous value of their mark.¹³⁴ *Moseley* brushed this evidence away, criticizing Victoria’s Secret for bringing “a complete absence of evidence of any lessening of the capacity of the VICTORIA’S SECRET mark to identify and distinguish goods or services sold in Victoria’s Secret stores or advertised in its catalogs.”¹³⁵ This language signals the great specificity that the *Moseley* court demanded to show dilution—in fact it may be read as a categorical requirement for direct evidence in dilution cases. The McCarthy standard, requiring direct evidence in almost all cases, presents a similarly difficult requirement. McCarthy’s interpretation also has the benefit of a following. A handful of courts have embraced the McCarthy standard or something similar to a two-track interpretation.¹³⁶

The Lee standard, on the other hand, accounts for the context in which such statements were made. Lee writes that the “complete absence of evidence” language was made to show that the citizen who first reported the *Moseley*’s store to Victoria Secret did not receive a different impression of the national chain because of the local shop’s

¹³⁰ *Id.* at 915

¹³¹ *Id.*

¹³² *Id.* at 914.

¹³³ MCCARTHY, *supra* note 113, at § 24:94.2.

¹³⁴ *Moseley*, 537 U.S. at 424.

¹³⁵ *Id.* at 434.

¹³⁶ *E.g.*, Ty, Inc. v. Softbelly’s, Inc., 353 F.3d 528, 535 (7th Cir. 2003); Kellogg Co. v. Toucan Golf, Inc., 337 F.3d 616, 628 (6th Cir. 2003).

presence.¹³⁷ The Court, according to Lee, was merely commenting that the citizen's reporting of the name did not constitute evidence of dilution, and nothing more.¹³⁸ In addition, Lee places much greater emphasis on *Moseley's* dicta envisioning that circumstantial evidence would be sufficient in certain cases. Lee uses that dicta as a pole from which to establish a continuum of evidentiary requirements from the most direct evidence in dissimilar mark cases to no direct evidence in identical mark disputes.¹³⁹ Lee's interpretation harmonizes both *Moseley's* holding and its *dicta* and gives them full effect. This interpretation also allows subsequent courts the flexibility of determining in intermediate cases the varying levels of mark similarity and also the varying levels of necessary direct evidentiary proof.¹⁴⁰

Both the Lee approach and the McCarthy approach present useful, workable standards that could effectively govern in a post-*Moseley* world. However, both of these standards may not fully embody the full intent of the *Moseley* opinion and give the Court's various statements appropriate weight. The McCarthy approach places the right emphasis on the Court's holding that actual evidence is necessary to prove dilution under the FTDA. However, McCarthy fails to sufficiently account for the *Moseley's* "circumstantial evidence" language. *Moseley* does not state that direct evidence is required in all cases except those where the marks are identical. The *Moseley* language is more general and flexible. Recall that the Court states that direct evidence would not be necessary "if actual dilution can reliably be proved through circumstantial evidence—the obvious case is one where the junior and senior marks are identical." The Court does not say that an identical mark dispute is only situation where circumstantial evidence would suffice, it is just the most obvious one of many possible scenarios.¹⁴¹ Thus, *Moseley* envisions something broader than a two-track standard whereby only cases involving identical marks may use the circumstantial evidence standard. It remains to be seen exactly what that will be, but a literal interpretation of McCarthy's rule improperly forecloses any exploration of the issue.

While the McCarthy standard does not sufficiently account for *Moseley's* circumstantial evidence language, the Lee standard gives it too much emphasis in the Court's overall opinion. Lee's interpretation

¹³⁷ Lee, *supra* note 35, at 916. *See also* *Moseley*, 537 U.S. at 434.

¹³⁸ Lee, *supra* note 35, at 916.

¹³⁹ *Id.* at 915.

¹⁴⁰ *Id.*

¹⁴¹ *Id.* at 913 ("If cases involving identical marks are obvious candidates for proof of dilution by circumstantial evidence, the logical implication is that nearly identical marks may also be shown to dilute without direct evidence . . . and that the need for direct evidence will increase as the junior mark's similarity to the famous mark decreases.").

of *Moseley* places the identical mark scenario on one extreme of a continuum between those cases requiring direct evidence and those cases that do not. This in essence places the primary holding of the *Moseley* case, that actual dilution is required, on equal footing with a casually remarked dictum, that circumstantial evidence may not be necessary in cases such as where identical marks are involved. Lee's standard could open up any number of dilution claims to the circumstantial evidence proof standard that *Moseley* sought so clearly to foreclose. Plaintiffs challenging somewhat dissimilar marks might be able to establish dilution with some circumstantial evidence of dilution. Plaintiffs challenging somewhat similar marks might be able to rely upon circumstantial evidence more than direct evidence. In proving dilution against all but the most dissimilar marks, circumstantial evidence might play an evidentiary rule. This would result in a back-door return to the Second Circuit multi-factor test of dilution found in *Nabisco, Inc. v. PF Brands, Inc.*¹⁴² An actual dilution standard would have many characteristics of the traditional likelihood test found in trademark infringement cases, and this is a result that *Moseley* certainly did not intend.

Does a third way exist that adopts the Lee and McCarthy approaches in a fashion that embodies the spirit and letter of the Supreme Court in *Moseley*? The answer is fortunately yes and the beginnings of that standard were very recently articulated in the Second Circuit case of *Savin Corp. v. Savin Group*,¹⁴³ the subject of this next section.

B. Can Savin Save the Moseley Case?

On December 10, 2004, the Second Circuit issued its decision in *Savin Corp. v. Savin Group*.¹⁴⁴ In *Savin*, the plaintiff was a Connecticut-based seller of business equipment and has been owner of the Savin trademark for almost fifty years.¹⁴⁵ The defendant was a professional engineering group in New York.¹⁴⁶ In 2002, the plaintiff learned that the defendant had registered the domain names www.thesavingroup.com and www.savinengineers.com.¹⁴⁷ The plaintiff mailed the defendant two cease-and-desist letters, to which the defendant did not respond.¹⁴⁸ Later that year, the plaintiff sued the defendant claiming trademark dilution and trademark infringement. The trial court granted the

¹⁴² 191 F.3d 208 (2d Cir. 1999).

¹⁴³ 391 F.3d 439 (2d Cir. 2004).

¹⁴⁴ *Id.*

¹⁴⁵ *Id.* at 446.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 447.

¹⁴⁸ *Id.*

defendants' motion for summary judgment and dismissed the actions.¹⁴⁹ The trial court found that the plaintiff established a triable issue on other elements of its dilution claim.¹⁵⁰ However, the trial court concluded that it failed to produce any evidence that the junior mark was identical to the plaintiff's senior mark, an essential element of any FTDA claim.¹⁵¹

On appeal, the Second Circuit addressed, among other questions, the proper interpretation of the *Moseley* "circumstantial evidence" language.¹⁵² The trial court stated that the presence of identical marks plus submission of additional circumstantial evidence was necessary to show actual dilution.¹⁵³ The plaintiff argued on appeal for a lower standard—the presence of identical trademarks, without more, was sufficient to establish circumstantial evidence of actual dilution.¹⁵⁴ The appellate court agreed with the plaintiff's interpretation and concluded that an owner of a famous mark need only show the commercial use of an identical junior mark to satisfy the actual-dilution element of an FTDA claim.¹⁵⁵

The appellate court's most important discussion for purposes of this article occurs when it examined what constitutes an identical mark. The court initially stated quite emphatically that "[i]t cannot be overstated, however, that for the presumption of dilution to apply, the marks must be identical. . . . [A] mere similarity—even a close similarity—will not

¹⁴⁹ *Id.*

¹⁵⁰ *Id.* at 448.

¹⁵¹ *Id.*

¹⁵² *Id.* at 451 (citing *Moseley*, 537 U.S. at 434 ("[D]irect evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proved through circumstantial evidence – the obvious case is one where the junior and senior marks are identical.")).

¹⁵³ *Id.* at 451-52.

¹⁵⁴ *Id.* at 451.

¹⁵⁵ *Id.* at 452. The court cited and quoted the following cases: *American Honda Motor Co. v. Pro-Line Protoform*, 325 F. Supp. 2d 1081, 1085 (C.D. Cal. 2004) ("[W]hen identical marks are used on similar goods, dilution—the capacity of the famous mark to identify and distinguish the goods of the trademark holder—obviously occurs."); *GMC v. Autovation Techs.*, 317 F. Supp.2d 756, 764 (E.D. Mich. 2004) ("GM's evidence establishes actual dilution in that Defendant has used marks that are identical to the world famous GM Trademarks."); *7-Eleven, Inc. v. McEvoy*, 300 F. Supp.2d 352, 357 (D. Md. 2004) ("Though dilution claims require evidence of actual confusion, that requirement is satisfied when, as here, the defendant uses the plaintiff's mark."); *Nike Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp.2d 1352, 1372 (S.D. Ga. 2003) ("[T]he Court concludes that Variety has diluted the Nike trademarks due to the identical or virtually identical character of the marks on the Accused Goods to the Nike trademarks."); *Pinehurst, Inc. v. Wick*, 256 F. Supp.2d 424, 432 (M.D.N.C. 2003) (finding actual dilution where defendant used domain names identical and nearly identical to plaintiff's trademarks).

suffice to establish per se evidence of actionable dilution.”¹⁵⁶ This statement initially established a clear rule that only completely identical marks will establish evidence of actual dilution without supporting circumstantial proof. The court noted that “[s]trictly enforcing the identity requirement comports well with the purposes of the FDFTA[.]”¹⁵⁷

The court almost immediately, however, appeared to retreat from this bright line standard. Perhaps realizing the difficulty in establishing what constitutes an identical mark, the court stated that the ascertaining a mark as identical will constitute a factually intensive and contextually relevant inquiry.¹⁵⁸ The court noted that differences in font, size, color may impact an identity determination.¹⁵⁹ Not only will the textual similarity of the mark be relevant, but also the context in which the mark is applied. For example, whether they marks are used in dissimilar corporate logos or are used in traditional media or the internet might impact any identity determination.¹⁶⁰ In addition, textually identical may have different pronunciations, which could make them different in such contexts as radio advertising.¹⁶¹ Finally, the court stated that modification of any mark by adding generic descriptors to an internet address such as “thesavingroup.com” might not necessarily defeat a showing of identical marks.¹⁶² The appellate court criticized the trial court’s perfunctory conclusion that the marks were identical without significant analysis.¹⁶³ The appellate court vacated the trial court’s judgment dismissing the plaintiff’s FTDA and remanded the case for further proceedings.¹⁶⁴

The *Savin* court intended addressed a narrow legal issue. Specifically, the court answered affirmatively whether a showing of identical marks without further proof was sufficient to show circumstantial evidence of actual dilution under the FTDA. However, *Savin’s* discus-

¹⁵⁶ *Id.* at 453.

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

¹⁵⁹ *Id.*

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.* at 454.

¹⁶³ *Id.* (quoting *Savin Corp. v. Savin Group*, 2003 WL 22451731 at *7 (S.D.N.Y. 2003) (“[P]laintiff and [D]efendants both use the name “Savin,” and their logos display similar block letter fonts, with one arm of the letter “V” slanted at a greater angle than the other. The only apparent difference in the marks is that [D]efendants’ logo incorporates four squares, one slightly tilted, to the left of the name. Given that both marks feature the same name, such a difference is inconsequential.”). The trial court reached this conclusion when discussing the parties’ trademark infringement claim. *Id.*

¹⁶⁴ *Id.*

sion to reach that conclusion, perhaps unintentionally, sheds important light on the nature of the *Moseley* inquiry.

First, the *Savin* decision rightly understands that determining an identical mark is not a factually insensitive inquiry. Interpreted most literally, virtually no marks could ever be considered identical. The slightest difference in expression of the trademark by a junior mark holder could constitute a non-identical mark. That would require the senior mark holder to proceed down the difficult path of proving actual dilution in matters where the marks are almost completely, but not entirely, identical. Certainly the Supreme Court in *Moseley* did not intend to have its circumstantial language dicta so narrowly interpreted.

Second, the *Savin* decision properly inquired into the various factual and contextual characteristics of the mark that would determine identity. *Savin* hinted at a three factor identity-inquiry. First, the court will examine into the textual similarity of the two marks, looking at characteristics such as font size, color, and shape. Second, the court will review the marks contextual usage. This would include understanding whether a mark's contextual usage through oral pronunciation or usage in specialized media affects the identity of the two marks. Third, the court will examine the impact of any surrounding descriptors such as "group" "company" or "association" to determine if these words create sufficient dissimilarity. No doubt the court did not intend to create such a test, but the inquiry that *Savin* makes is nonetheless enlightening.

Third, the *Savin* decision properly interprets without intending to do so the relative importance of the *Moseley* holding and its circumstantial evidence dicta. The McCarthy analysis appears to give insufficient weight to *Moseley's* dicta by allowing circumstantial evidence to suffice in only the most limited of cases. *Moseley* did not state that only identical mark disputes could be proven by circumstantial evidence, only that identical mark disputes were the most obvious example. The Lee analysis over-weights *Moseley's* dicta by giving it equal weight with *Moseley's* main holding that actual dilution is required proof. Placing the actual dilution requirement and the circumstantial evidence exception on two poles of a spectrum implies that most cases will fall within that spectrum according to mark similarity. This would significantly weaken the core holding of *Moseley* that non-circumstantial evidence showing actual dilution is required in almost all cases.

By contrast, *Savin* interprets the *Moseley* dicta with some flexibility by permitting marks that are not literally identical to show dilution without further evidence. However, the *Savin* case does not go as far to place the *Moseley* dicta on par with the *Moseley* holding, and notes unequivocally that merely very similar marks will not suffice for per se proof of dilution. The *Savin* language and Lee/McCarthy tests are not

perfect matches. *Savin* examines when identical marks will not need circumstantial evidence while Lee and McCarthy attempt the much broader discussion of what dilution actions will require non-circumstantial proof and what dilution actions will not. Nevertheless, *Savin*'s inquiry into identity materially clarifies *Moseley* by providing the hint of a multi-factor analysis for establishing identical trademarks.

IV. CONCLUSION

Can *Savin* save the *Moseley* case? The answer is a qualified yes. *Savin* offers an inquiry into identity that will help determine the similarity of two marks. This reveals that not all identical marks are created equal and the need for circumstantial evidence in identical mark cases will certainly remain a fact-sensitive inquiry. This analysis offers a reasoned clarification of the *Moseley* dicta that has confounded so many courts and commentators in a very short time.

The *Savin* case, however, cannot save *Moseley* on its own. Cases interpreting *Moseley* within and beyond the Second Circuit will determine whether the *Savin* case offers a useful model or becomes an exceptional case different from the predominant inquiry established by other courts. Only one court has cited *Savin* as of the writing of this article, and it did so only for the statement that a mere similarity in trademarks will not suffice to establish per se evidence of dilution.¹⁶⁵ Furthermore, *Moseley* has raised a number of other questions than the issue addressed in this article. For example, Judge Posner's query in *Ty Inc. v. Softbelly's Inc.*,¹⁶⁶ doubting what question could possibly be put to consumers in consumer surveys in actual dilution cases to elicit a meaningful answer is an issue that has yet to be addressed.¹⁶⁷

The Supreme Court will probably not address these issues in the near future. Therefore, the task remains with lower courts and commentators to make sense of the cryptic case. Ultimately, only time will tell if *Savin* can clarify the *Moseley* dicta and whether the judicial standard for actual dilution in *Moseley* will remain nine Supreme Court Justices' special little secret.

¹⁶⁵ *Everest Capital Ltd. v. Everest Funds Management, LLC*, 393 F.3d 755, 763 (8th Cir. 2005).

¹⁶⁶ 353 F.3d 528, 536 (7th Cir. 2003).

¹⁶⁷ See *supra* note 112 (quoting Judge Posner).

MASSACHUSETTS COVENANTS NOT TO COMPETE IN AN ERA OF EMPLOYMENT UNCERTAINTY

by DAVID A. GOODOF*

I. INTRODUCTION

In the current atmosphere of mergers and acquisitions and the mobility of today's workforce, a new look must be given to the inherent problems associated with non-competition clauses. Non-competition clauses are also known as non-competes or covenants not to compete and fall under the general umbrella of restrictive covenants. Also included with these are the usual non-disclosure and non-solicitation clauses. They are commonplace in the business world today and, given the need to find and retain competent employees, serve an important purpose for the business community. By their very nature and in performance of the function for which they are designed, these clauses create legal issues.¹

First is the problem of the supply and demand in the workplace which creates a market for employees. Those employees, management and high-tech employees, who are most in demand are also those most likely to have employment contracts that contain non-competition clauses. These clauses are an attempt to retain employees or to prevent them, after leaving, from competing with the prior employer. These clauses may tend to discourage employees from moving to better jobs that will provide a better living for a person and his/her family.

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¹ DANIEL J. ASPELUND & ROBERT B. LYTLE, EMPLOYEE NONCOMPETITION LAW 1-9 (2004).

Additionally, there is the constant threat of legal action that exists with these agreements. When an employee resigns to take another job with a potential competitor, the prior employer may either threaten a lawsuit or immediately file one. The main means of enforcement of a non-competition clause is through the use of the equitable remedy, namely, the injunction. Given the widespread use of non-competition clauses, this will undoubtedly lead to an extra burden on the courts and, quite obviously, on the respective parties to the litigation.²

Non-competes are also not dealt with uniformly throughout the United States.³ Business is mobile as are employees and non-competes may be handled in a different manner by the courts in the different states. In fact, some states have enacted statutes to deal with the issue of these clauses. There is always the question of which state should handle any dispute that may arise.⁴

This article will attempt to enlighten as to the background of non-competition clauses, the current law in Massachusetts and selected other states and the need for review of the law in light of employee-employer relationships and the latest trends in business.

II. DEFINITION, PURPOSE AND USE OF NON-COMPETITION CLAUSES

By its very nature, a non-competition clause is a restrictive covenant that limits an employee's rights according to its terms. Covenants not to compete purportedly have a number of valid purposes. They are utilized by management to protect legitimate business interests. Employers also have the option to include in an employment contract a clause prohibiting the disclosure of trade secrets and this usually has a better chance of being upheld by the courts.⁵ These clauses are also used to protect the goodwill of a business. In terms of trade secrets and the purpose behind some restrictive covenants, there is the underlying concept of commercial morality wherein business ethics demands that trade secrets of other companies be refused, whether those trade secrets come via theft or via the good fortune of hiring a former employee of a competitor.

A. *Trade Secrets*

Justification of covenants not to compete as necessary to the protection of trade secrets has been raised frequently in litigation. In a high technology society, this protection would appear to be absolutely

² *Id.*

³ *Id.* at 1-1.

⁴ *Id.* at 10-90.

⁵ *Id.* at 2-5.

necessary. A covenant not to compete must, however, be ancillary to an employment contract or another valid contract to be enforceable in Massachusetts.⁶ Without a valid contract, the non-compete is invalid and the employer is forced to look elsewhere for law to protect its interests in its proprietary information. A trade secret is defined in Massachusetts as “any formula, pattern, device or compilation of information that is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it...”⁷ Protection of any information that gives a competitive advantage would be both desirable and a valid business function. Employers argue that without covenants not to compete, they will not be able to protect what they own and will lose their competitive advantage. There are a number of reasons why this argument fails.

The Uniform Trade Secrets Act which was drafted in 1979 and amended in 1985 has been adopted by forty-five states either in the original version or as amended.⁸ This act defines trade secrets, misappropriation and provides for injunctive relief and damages.⁹ Actual or threatened misappropriation of trade secrets may be enjoined, misappropriators should be held liable under the Act for their misdeeds and, if there is willful and malicious misappropriation, the courts are allowed to award punitive damages.¹⁰ A key to this act is the idea that employers can take action prior to the misappropriation of trade secrets. The threat of misappropriation is enough to give rise to injunctive relief.

The United States Congress enacted the Economic Espionage Act of 1966 on October 11, 1966 in response to extensive trade secret misappropriation.¹¹ This was the first federal law enacted to protect business against the loss of trade secrets.¹² The Act was passed in response to survey information that there had been a huge increase in trade secret theft.¹³

In addition, the courts have allowed the expansion of trade secret protection through the use of the theory of “inevitable disclosure”. This theory allows an employer to prevent a former employee from working for a competitor by saying that there will inevitably be disclosure of

⁶ *Marine Contractors Co., Inc. v. Hurley*, 365 Mass. 280, 287, 310 N.E.2d 915, 920 (1974).

⁷ *J. T. Healey & Son, Inc. v. James A. Murphy & Son, Inc.*, 260 N.E.2d 723, 729 (Mass. 1970).

⁸ Unif. Trade Secrets Act, 14 U.L.A. 438 (1990).

⁹ *Id.*

¹⁰ *Id.*

¹¹ 18 U.S.C. 1831 (2005).

¹² *Susan Street Whaley, The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809 (1999).

¹³ *Id.*

trade secrets or information.¹⁴ This can certainly have a chilling effect on employee mobility and can be a source of tremendous abuse.

B. Trade Secret Protection in Massachusetts

Massachusetts has not adopted the Uniform Trade Secrets Act. It has two other statutes that may perform the same functions. The larceny statute provides that “Whoever steals or with intent to defraud obtains by a false pretense, or whoever unlawfully, and with intent to steal or embezzle, converts, secretes, unlawfully takes, carries away, conceals or copies with intent to convert any trade secret of another.... shall be guilty of larceny”.¹⁵ Additionally, the statute gives a broad definition of a trade secret and calls for penalties including either imprisonment in the state prison for up to five years or a fine of not more than twenty-five thousand dollars and imprisonment in jail for up to two years.¹⁶ These are not insubstantial penalties and, if people are prosecuted under this statute, there should be some degree of deterrence.

Massachusetts also has a tort remedy for the misappropriation of trade secret. This statute defines trade secret by reference to the criminal statute cited above and provides for damages. There is also the provision that the court may, in its discretion, grant double the damages awarded. This is the prime example of a punitive damage statute.¹⁷

There are significant civil and criminal penalties available in Massachusetts and in other states as indicated by the statutes listed above to provide remedies for the misappropriation of trade secrets even to the extent of providing for punitive damages. These remedies should be sufficient even in the absence of a non-compete clause to protect employers from the loss or potential loss of this information. The equitable remedies available will inhibit the use of purloined trade secrets.

III. NON-COMPETITION CLAUSES ANCILLARY TO OTHER CONTRACTS

As previously stated, to be valid, a non-competition clause must be ancillary to another valid contract. There are numerous types of contracts that they have been included within and deemed valid by the courts. These include licenses, sales of stock, contracts for the sale of real estate, contracts for the transfer of personal estate, partnership agreements among others. The major areas of use of covenants not to compete are in sales of a business, employee non-competition agree-

¹⁴ *Id.* at 811.

¹⁵ MASS. ANN. LAWS ch. 266, §30 (4) (Matthew Bender 2005).

¹⁶ *Id.*

¹⁷ MASS. ANN. LAWS ch. 93, §42 (Matthew Bender 2005).

ments and franchise agreements.¹⁸ Non-competition clauses in the sale of a business are more favorably regarded by the Massachusetts courts because of the presumption that they protect a legitimate business interest. One should not have to suffer competition from the very person from whom he purchased the business. That is an easy case for a judge to decide.

The inclusion of a non-competition clause in a franchise agreement leads to an interesting debate. It is not technically a sale of a business nor is it an employment contract. Despite the tremendous growth in franchising, there are not as many cases involving non-competition clauses. In Massachusetts, the franchise situation of a non-competition clause may be treated as the sale of a business by default. A recent case seems to indicate that the franchise will be considered the equivalent of a sale as it was not an employment situation and the agreement actually called the franchisee an independent contractor.¹⁹ Other jurisdictions have likened these franchise agreements and the non-competes contained therein to employment contracts. There is also the question in these agreements relative to choice of law. Obviously, the franchisor will include within the agreement a forum selection clause and will be careful to choose a forum that will uphold non-competition agreements.

The most common covenants not to compete are found in employment contracts. They are normally enforceable if they are reasonable in scope. There are a number of other factors that are taken into account in the courts. Enforcement of these clauses usually begins with a court action requesting an injunction. The elements that the courts focus upon in deciding these cases show an inherent conflict that exists with covenants not to compete. There is a public policy issue that involves the right of every person to work in his or her chosen field as well as a public interest in having people employed in their chosen field that has to be set off against the sanctity of contract and protection of legitimate business interests.²⁰ Everyone has the right to enter into a contract and they have the right to enter into bad deals as well as good deals. It is the manner in which the courts analyze these cases and the factors involved that allow decisions to be made. Those bad deals that are unreasonable in the area of restrictive covenants are disallowed by the courts.

¹⁸ ASPELUND & LYTLE, *supra* note 1, at 3-1-3-25.

¹⁹ *Boulangier v. Dunkin' Donuts Inc.*, 442 Mass. 635, 640, 815 N.E.2d 572, 577 (2004).

²⁰ *All Stainless, Inc. v. Colby*, 364 Mass. 773, 778, 308 N.E.2d 481, 485 (1974).

IV. ENFORCEMENT OF NON-COMPETITION CLAUSES

A. *Statutory Restrictions*

There are a number of states that have clarified the issue of enforcement of non-competes with statutory provisions relative to validity. California has passed a statute that says that “Except as provided in this chapter, every contract by which anyone is restrained from engaging in a law profession, trade, or business of any kind is to that extent void.”²¹ The next section of the statute does, however, permit the use of such covenants in the sale of a business or in the sale of the assets of a business.²² Obviously, most business entities are going to avoid California for enforcing non-competes.

Colorado has also passed a statute to set policy in the area of covenants not to compete. The Colorado statute provides that “Any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer shall be void...”²³ The statute also provides exceptions for the sale of businesses or assets, contracts for the protection of trade secrets, recovery for training expenses and executives and management and their staff.²⁴ Presumably, the courts will make the determination as to whether or not any of these exceptions apply.

Tennessee has said in its statutes that any contracts or agreements between persons or corporations that tend to lessen competition are against public policy, unlawful and void.²⁵ The court cases that have been decided since the statute was enacted have indicated that non-competes are not per se invalid and that it is for the courts to decide to enforce them based upon reasonableness.

B. *Massachusetts Common Law*

Massachusetts does not have a statute that controls the validity of non-competition clauses. It relies upon the common law to determine whether or not the clause is reasonable. There are a number of factors that are reviewed by the court to make that determination. As previously stated, if the covenant is in the context of the sale of a business, the courts will look at it less critically. In fact, they will be enforced more liberally.²⁶ However, even though the agreement may be

²¹ CAL. BUS. & PROF. CODE §16600 (Matthew Bender 2005).

²² *Id.* at §16601.

²³ COLO. REV. STAT. §8-2-113(2) (Matthew Bender 2004).

²⁴ COLO. REV. STAT. §8-2-113 (2)(a-d), (Matthew Bender 2004).

²⁵ TENN. CODE ANN. §47-25-101 (Matthew Bender 2004).

²⁶ *Alexander & Alexander, Inc. v. Danahy*, 488 N.E.2d 22, 29 (Mass. 1986).

reviewed less stringently, the court still looks to the impact of the clause and how reasonable it is under the circumstances.

i. Protection of Legitimate Business Interests

The courts will then look at the covenant to determine if it is necessary to protect some legitimate business interest. The courts have made a determination of what constitutes legitimate business interests. One court listed the factors as including trade secrets, other confidential information, the goods acquired through dealings with customers.²⁷ The courts have stated that protection from ordinary competition is not a legitimate business interest.²⁸ Other courts have looked to the impact on the company's reputation and its relationship with its customers as a legitimate business interest.²⁹ The Massachusetts Appeals Court has affirmed a case with a wide geographic restriction as necessary to protect the employer's legitimate business interests where an executive who had been dismissed had access to private business plans, financial plans, site acquisitions, and marketing and merchandizing strategies.³⁰

ii. Factors in Determining Enforceability

The Massachusetts courts are very concerned with fairness. In the sale of a business situation, the courts assume that the parties have equal bargaining power. There are a number of cases where the presence of an attorney was a factor in the final determination of validity.³¹ There is a great concern that employers are forcing employees to sign agreements without being totally aware of the consequences. There is also the issue of choice. The courts will examine the surrounding circumstances to determine if the employee had only his own labor to sell and was not in a position to bargain with his employer.³² Restrictions may be more reasonable in the case of an executive as well.³³ The court concluded that, although there is a temptation to hold the executive to the bargain that he obviously understood, case law dictates that courts require that agreements not to work be reasonable.³⁴

The next factor to be reviewed by the Massachusetts courts is the scope of the non-compete. Is it reasonable in terms of time and geographic limits? What is reasonable depends upon the circumstances and

²⁷ *Marine Contractors*, 365 Mass. at 287, 310 N.E. 2d at 920.

²⁸ *Marine Contractors*, 365 Mass. at 287-288, 310 N.E.2d at 920.

²⁹ *Marcam Corporation v. Orchard*, 885 F.Supp. 294, 298 (Mass. 1995).

³⁰ *Kroeger v. Stop & Shop Companies, Inc.*, 432 N.E.2d 566, 570. (Mass. 1982)

³¹ *Boulanger*, 442 Mass. at 640, 815 N.E.2d at 577.

³² *Alexander*, 488 N.E. 2d at 28.

³³ *Kroeger*, 432 N.E. 2d at 571.

³⁴ *Id.* at 571.

the courts have to review this on a case by case basis. A covenant will not be valid if it is more restrictive than is necessary to protect the legitimate business interests of the employer. In the case of a former franchise owner, Massachusetts determined that two years and a geographic limit of five miles from any other Dunkin' Donuts store was valid.³⁵ It appears that two years will often be deemed reasonable and five or more will not be. In terms of geographic area, it will always depend upon the facts of the individual case. The geographic restriction which included all of New England and New York in a non-compete for a salesman whose territory was Southern Maine, Southern New Hampshire and Northeastern Massachusetts was too broad according to the Massachusetts court.³⁶ A large geographic area is not unheard of. In one case, a covenant covering one hundred miles around Boston was held reasonable.³⁷ In another case, the Massachusetts Appeals Court upheld a lower court finding that an agreement that denied the employee the right to work east of the Mississippi River was overly broad and cut back the restriction to New England, New York and New Jersey. Given the facts in the case, the Appeals Court found that the restriction made by the trial court judge to be reasonable.³⁸ This contraction took place despite the finding that restraints on an executive may go beyond the precise area of activity at any point in time.³⁹

iii. Equitable Relief in Massachusetts

Normally the employer will bring an action for a violation of a covenant not to compete, although the employee may preempt the employer by filing an action seeking declaratory relief. This action is normally commenced in the Superior Court Department seeking the equitable relief of an injunction to enjoin the employee from working in violation of the non-competition clause. A judge has several options. He or she can make a determination that there is a reasonable likelihood of success on the merits, that there will be irreparable harm to the plaintiff if he or she does not issue the restraining order, that the injury to the employer will exceed the potential harm to the employee and that the public interest will not be harmed by granting an injunction.⁴⁰ If he or she decides that the restraining order or injunction shall enter, posting of a bond is usually required in order to satisfy whatever losses the employee may suffer as a result of the injunction or restraining order

³⁵ *Boulanger*, 442 Mass. at 643, 815 N.E.2d at 579.

³⁶ *All Stainless*, 364 Mass. at 780, 308 N.E.2d at 486.

³⁷ *Marine Contractors*, 365 Mass. at 289, 310 N.E.2d at 921.

³⁸ *Kroeger*, 432 N.E. 2d at 571.

³⁹ *Id.* at 570.

⁴⁰ *Marcam*, 885 F.Supp. 2d at 297.

should the employee win at trial. The judge may find that there is no reasonable likelihood of judgment and deny the request for the restraining order and the case will probably proceed to trial. After the trial, the judge may uphold the validity of the restrictions with a finding that they are reasonable or find that they are unreasonable and, therefore, unenforceable. A third option for a judge is to determine that the covenant is only partly unreasonable, that it is too broad in time, in space or in any other aspect, and to either amend it to make it reasonable or to sever the portion of the contract that is unreasonable and enforce the balance.⁴¹

Given the above analysis, it is no wonder that there is a wide variety of findings in cases that have similar fact patterns. In a Massachusetts Superior Court case, Justice Nonnie Burnes determined that a non-compete clause was unenforceable after a group of employees left their employer to go to work for a competitor.⁴² The employees all worked for the employer in the staffing industry for a period of years. They all signed non-competition agreements as well as non-solicitation agreements. The area was a one hundred mile radius of any office within the employee's district. The analysis was the same as the above analysis. The first question is whether there is a reasonable likelihood of success on the merits. To find this reasonable likelihood of success, the covenant has to be necessary to protect a legitimate business interest. This judge extended this to mean a legitimate business interest in goodwill and because these salespeople didn't form close customer relationships, the judge made the decision that there was not a likelihood of prevailing at trial.⁴³ As to the other factors in determining validity of non-compete clauses, the decision seems to indicate that all were present. There was consideration for the covenant, it was reasonable in all circumstances including time and space and it was consistent with public policy.⁴⁴

Arriving at a different result despite similar facts is the United States District Court for the district of Massachusetts in a case decided on January 16, 2004. In this case, the court issued an injunction against salespersons based upon the different types of relationships that they had with their clients.⁴⁵ It appears that each of the salespersons in this case had an "A list" of clients that they had a close relationship with and with whom they were in direct contact. The difference in this matter then comes down to the judge looking at the facts and determining that

⁴¹ *All Stainless*, 364 Mass. at 778, 308 N.E.2d at 485.

⁴² *Cypress Group, Inc. v. Stride & Associates, Inc.*, 17 Mass.L.Rptr. 436, 2004 WL 616302 at *5 (Mass. Super. Feb.11, 2004).

⁴³ *Cypress Group*, 17 Mass.L.Rptr. at 436, 2004 WL 616302 at *3.

⁴⁴ *Cypress Group*, 17 Mass.L.Rptr. at 436, 2004 WL 616302 at *4, *5.

⁴⁵ *Oxford Global Resources, Inc. v. Guerriero*, No. Civ.A. 03-12078-DPW, 2004 WL 180038 (D. Mass. Jan.16, 2004).

there is a chance of harming a legitimate business interest. It appears that these cases may actually hinge on the manner in which a judge views the evidence. This makes any predictability very difficult.

There are a number of other defenses to the attempted enforcement of non-competition clauses of which several are important. If the employer has breached the contract, the non-compete should no longer be valid. If the employer has terminated the employee for no cause, unjustly or committed some unconscionable act, the employee may argue that the employer comes into court with “unclean hands” and is therefore not entitled to an equitable remedy like an injunction. The other defense involves a forfeiture provision that is put into some non-competition clauses. These provisions involve forfeiture of some right for the right to compete. Courts may interpret them almost as if they constitute a buyout of the contract right.

V. EMPLOYEE MOBILITY

In an era of ultra mobility, the issue arises as to the continued validity of non-competition clauses as an employee is promoted or demoted within an organization. Where an employee of a organization has a valid covenant not to compete within an employment agreement, is promoted without a new contract and ultimately leaves the company for other employment, the courts have recently decided that the original non-compete is no longer valid.⁴⁶ In one case, an employee had voluntarily left a company several times after having signed employment contracts with non-compete clauses and then had come back to work for the company. In his last stint with the employer, he signed an agreement as a sales consultant and then became a sales manager as a full time employee of the company. The court determined that the change of position alone combined with evidence that the employer continuously tried to have him sign a new non-compete clause, indicated that the original non-compete was not valid.⁴⁷ The decision also states that the change in employment status was material as evidenced by the different manner in which the employee was treated. His status became that of a full-time employee as opposed to independent contractor.

In a more recent Massachusetts case, an employee was hired as a project manager by the employer in 2000 at an annual salary of \$55,000.00 and was eligible for a bonus of up to ten percent of her base salary.⁴⁸ She signed an employment contract which included a non-competition and a non-disclosure agreement. In 2001, she was promoted

⁴⁶ AFC Cable Systems, Inc. v. Clisham, 62 F. Supp. 167 (Mass. 1999).

⁴⁷ *Id.* at 173.

⁴⁸ Lycos, Inc. v. Jackson, 18 Mass.L.Rptr. 256, 2004 WL 2341335 (Mass. Super. Aug.25, 2004).

to product manager and given a raise of slightly more than \$10,000.00 with the same bonus provision. In 2002, her salary was increased by \$5,000.00 but the bonus percentage was reduced to five percent. At that time, the employee also ceased to supervise other employees. This was perceived by her as a demotion. In March of 2004, the employee was promoted to Senior Product Manager and her base salary increased to \$81,900.00 although the bonus percentage remained at five percent. Prior to the time of this promotion, she had not been asked to sign a new non-competition clause. She was at this time given an offer letter that informed her about the promotion and referenced the prior non-compete. She resigned in May of 2004 and refused to reveal her future plans of employment. Subsequently, the employer brought an action seeking a preliminary injunction.⁴⁹ The court in this case as in the prior case held that the material change in the employment relationship voided the prior agreement and, accordingly, the non-competition clause within the prior agreement.⁵⁰

It would appear from the cases that any material change in job description or salary increase or decrease will cause existing employment agreements to become void. As a non-competition agreement must be ancillary to an existing agreement and as there must be consideration given for the non-compete, it is apparent that the non-compete expires as well. The determination of what constitutes a material change of sufficient magnitude to void an existing agreement is to be determined by the court on a case by case basis. Will it be an increase in pay without an increase in responsibility or an increase in responsibility without an increase in pay? Or will it take both to constitute a material change? It is obvious that an injunction could be granted and one denied in two very similar cases depending on how different judges view materiality.

VI. MERGERS AND ACQUISITIONS

Throughout the country, and Massachusetts is no exception, there is a trend toward consolidation through mergers and acquisitions. A number of banks and other businesses have been purchased by large competitors or simply by conglomerates. The issue of employee contracts and non-competition clauses contained therein arises during the time of the merger. The law of assignability of non-compete clauses (or employment contracts) differs from state to state. New York has held that a non-competition clause is assignable.⁵¹ This would seem to be the minority viewpoint, however, as most other states do not favor assign-

⁴⁹ *Id.* at *2.

⁵⁰ *Id.* at *3.

⁵¹ *Norman Ellis Corp v. Lippus*, 13 Misc. 2d 432, 176 N.Y.S.2d 5 (1955).

ment. The theory behind this is that employment contracts are personal service contracts and are not assignable. People should be able to choose for whom they will perform services. In a recent case discussing assignment of a non-competition clause, the idea of assignment was discussed as not having been addressed by the Massachusetts appellate court.⁵² The case indicated a split of authority in other jurisdictions. The decision made was that the employer could not show a reasonable likelihood of prevailing because it could not show absolutely that the non-compete is assignable.⁵³

In a prior case involving the assignment of an employment contract containing a non-compete clause, a judge made the finding that an employment contract is a personal services contract and the obligations should be performed by the employer alone and, accordingly, may not be assigned without the consent of the employee.⁵⁴ Accordingly, the assignee had no rights under the contract and was not entitled to relief. This is a superior court case and does not form precedent but certainly is indicative of the thinking in Massachusetts.

Both of the above cases indicate that assignment without consent of the employee will not bind the employee. Drafters of non-compete clauses have, however, included within the agreements that they are, or may be, assignable. If there are direct references to “successors or assigns,” the courts are more likely to take the view that assignment was anticipated.⁵⁵ Also if the employee consents to the assignment, the non-compete will retain its validity and be enforceable.

There are two other situations where the non-competition clause may remain enforceable even after an assignment. If the assignee is a successor to the existing business and is simply a change in the entity, the non-compete may be valid. It might also matter if the merger is more in the way of an acquisition of a subsidiary which retains its own identity. In that situation, there is no change in the obligations of the parties and the non-compete should remain enforceable.

VII. CONCLUSION

It is clear from the above analysis that the treatment of covenants not to compete in our business climate is far from settled. Although Massachusetts has generated a number of cases concerning non-competition clauses and has set forth a legal analysis for deciding cases that

⁵² *Chiswick, Inc. v. Conostas*, 18 Mass.L.Rptr 104, 2004 Mass. Super. LEXIS 272 at *5 (Mass. Super., June 17, 2004).

⁵³ *Id.* at *5.

⁵⁴ *Securitas Security Services USA, Inc. v. Jenkins*, 16 Mass.L.Rptr 486, 2003 Mass. Super. LEXIS 200 at *13 (Mass. Super. July 18, 2003).

⁵⁵ *ASPELUND & LYTLE*, *supra* note 1, at 10-83-10-84.

come before the courts, factual situations can differ, and therefore, cause different results. Judges differ in their beliefs as to what constitutes a legitimate business interest and whether or not that interest should outweigh the interest of the employee in obtaining employment. Public policy issues concerning the employment have to be weighed against the business interest. Individuals can tip the scales of justice differently. Evidence can be weighed more heavily in one direction by one judge as opposed to another. Judges and juries believe one witness over another. This is the nature of our judicial system.

Most cases involving breach of non-competition cases are not reported. As stated above, these cases are filed in superior court with the party attempting to enforce the agreement seeking injunctive relief.

If the injunction is granted, the case will proceed toward trial. If the non-compete expires in the interim the only matter left to be resolved is the issue of damages. Many employees do not have the money to proceed with the action after an injunction has issued and don't want to proceed if they are forced from a new job. The employee may begin the action seeking a declaratory judgment that the non-compete is invalid. If the employee wins, the employer may appeal. If there is no appeal, the case is, for all intents and purposes, finished. There are not a lot of cases that are reviewed by the appeals courts. There are a number of cases, some cited herein, that are being decided in the superior court. These cry out for guidance, especially some of the more recent cases involving assignments of non-competition clauses.

In addition, as set forth above, the Massachusetts courts review the legitimate business interest as well as the reasonableness of the covenant. One of the other factors that does not receive as much attention is the public policy that each person be able to work in his or her field of expertise. Every non-competition clause restricts that right to some degree. The courts then deal with the fairness of the restriction. It is inherent in every such covenant that there is unequal bargaining power between the parties. Who would agree to something that restricts them in the future if they had equal bargaining power. Even in times of low unemployment, when it is an employee's market, there is a bargaining power difference in employment contract negotiation. Except for upper level management personnel and those in labor unions, an individual is at a distinct disadvantage when seeking employment. The employer has an attorney who prepares the employment contract (or has made up whatever forms are necessary). Traditionally, the employee will not even have an attorney review the agreement. If the contract is a form contract, the employer will usually not vary it. If it contains a non-competition clause, it will usually be non-negotiable. There is rarely equal bargaining power in the acceptance of these employment contracts. There may be even less when unemployment is

high or an employee's company is purchased by another and there is an expected loss of jobs. This creates power in the employer that can lead to unfair contracts.

Although it has been recommended, it may be time to revisit the idea of a legislative solution to the issue of covenants not to compete.⁵⁶ Trade secret theft or disclosure has been the subject of legislative action both nationally and in Massachusetts. It may now be appropriate to formulate some legislative action to the problems that arise as the result of restrictive covenants. As noted above, California has a total ban on covenants not to compete although the California court system has arrived at some exceptions. The Colorado model may be significantly better as it makes void all agreements that restrict any person from being paid for skilled or unskilled labor.⁵⁷ The statute does provide for exceptions. There is an exception for the purchase and sale of a business.⁵⁸ This exception certainly makes sense in terms of protection of the goodwill sold. It is presumed that both parties to the sale of a business will have attorneys to review the contracts and that they will be deemed fair and reasonable. Also there is definitely consideration for the covenant not to compete.

The Colorado statute has a provision for contracts for the protection of trade secrets.⁵⁹ As this area of law has been adequately covered by Massachusetts, this exception can be accepted or not as the legislature sees fit. Expenses for training for employees who remain with an employee less than two years are an exception for the Colorado statute.⁶⁰ Many employers justify a non-compete as a means of retaining employees in whom they have a great deal of money and time invested. A clause in a contract calling for repayment of these moneys will not be too great a hardship for most employees. It may even bring a little commercial morality into play on the part of the employee. Lastly, the Colorado statute excepts executives and management personnel and their staff.⁶¹ It is presumed that these people will have attorneys negotiate employment contracts on their behalf. Any restrictive covenants are then deemed to be arms length transactions between parties of equal intelligence. Also most of these people can go to work in another industry at any time.

⁵⁶ Christine M. O'Malley, *Covenants Not To Compete in the Massachusetts Hi-Tech Industry: Assessing the Need for a Legislative Solution*, 79 B.U. L. REV. 1215, 1234-1237 (1999).

⁵⁷ COLO. REV. STAT. §8-2-113(2) (Matthew Bender 2004)

⁵⁸ COLO. REV. STAT. §8-2-113(2)(a) (Matthew Bender 2004).

⁵⁹ COLO. REV. STAT. §8-2-113(2)(b) (Matthew Bender 2004).

⁶⁰ COLO. REV. STAT. §8-2-113(2)(c) (Matthew Bender 2004).

⁶¹ COLO. REV. STAT. §8/2/113(2)(d) (Matthew Bender 2004).

The legislative solution to this complex and ever changing problem will simplify the function of the courts. It will also reduce the number of cases filed to deal with non-compete clauses. There will be more certainty out in the business world with regard to these clauses and whether or not any specific one is enforceable. Additionally, and maybe most importantly, the worker will have a protection from the employer and will be able to practice his or her profession after termination from a job. The public policy debate will have ended in this area of the law.

FEDERAL PERSONAL JURISDICTION IN CYBERSPACE IN TRADEMARK INFRINGEMENT CASES

by WILLIAM E. GREENSPAN*

I. INTRODUCTION

The Internet has no territorial boundaries.¹ When a person commits a wrongful act through use of the Internet such as the tort of defamation,² a violation of the antitrust laws,³ or infringement of patent,⁴ copyright,⁵ or trademark,⁶ one procedural issue that arises is to what

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¹ See, e.g., TiTi Nguyen, *A Survey of Personal Jurisdiction Based on Internet Activity: A Return to Tradition*, 19 BERKELEY TECH. L.J. 519 (2004) (noting that “any person connected to the Internet can access it and is limited in her activity only by the current state of technology”); Brian E. Daughdrill, *Poking Along in the Fast Lane on the Information Super Highway: Territorial Based Jurisprudence in a Technological World*, 52 MERCER L. REV. 1217 (2001) (explaining that “Internet users must heed the cries of Daedalus to be mindful of the jurisdictional limits that bound the boundless heavens. Whether posting a website or choosing a domain name, careful thought must be given to the market to be reached if the modern-day Icarus does not want to have his technological wings clipped by a court in a foreign jurisdiction to which he had no desire to submit.”).

² *Savage Universal Corp. v. Grazier Construction, Inc.*, No. 04 Civ. 1089 (GEL), 2004 U.S. Dist. LEXIS 16088 (S.D.N.Y. Aug. 12, 2004); *Whitney Information Network, Inc. v. Xcentric Ventures, LLC*, 347 F.Supp.2d 1242 (M.D. Fla. 2004).

³ *GTE New Media Services, Inc. v. Bellsouth Corp.*, 199 F.3d 1343 (D.C. Cir. 2000).

⁴ *Trintec Industries, Inc. v. Pedre Promotional Products*, No. 04—1293 2005 U.S. App. LEXIS 1004 (Fed. Cir. Jan. 19, 2005); *Abulkalam M. Shamsuddin and Proprietary Nutritionals, Inc. v. Vitamin Research Products*, 346 F.Supp.2d 804 (D. Conn. 2004).

⁵ *CompuServe, Inc. v. Richard S. Patterson*, 89 F.3d 1257 (6th Cir. 1996).

⁶ *Gail D. Lindgregn, d/b/a MOONBEAMS v. GDT, LLC*, 312 F.Supp.2d 1125 (S.D. Iowa 2004).

extent contacts almost entirely electronic in nature are sufficient under the Due Process Clause of the Constitution to support a court's exercise of personal jurisdiction over a nonresident defendant.

Imagine a hypothetical situation whereby a company in Massachusetts, General Electronics, sets up a website on the Internet: www.genelectric.com. It offers for sale appliances, electrical products, home electronics, lighting, and housewares. Any person visiting the website can place an order for the goods advertised, pay for the goods with a credit card, and have the goods shipped to any address in the United States. General Electric, whose headquarters are in Fairfield, Connecticut, sues General Electronics in a Connecticut federal district court for trademark infringement, claiming the defendant's use of the trademark www.genelectric.com is likely to cause confusion among consumers as to the source of the goods.⁷ General Electronics seeks dismissal of the case, claiming the Connecticut federal district court does not have jurisdiction to hear the case. What guidelines does the Connecticut federal district court use to determine if it has jurisdiction over a company that does not have any offices or agents in Connecticut, and the only contacts with Connecticut are through the Internet?

This paper will discuss: (1) the traditional rules for personal jurisdiction as articulated by the United States Supreme Court, (2) the standards for personal jurisdiction developed by federal courts based on a defendant's operation of a website, and (3) recent personal jurisdiction, trademark infringement cases based on Internet activity. Then this paper will recommend how one can possibly avoid having Internet activity subject to a foreign jurisdiction.

II. TRADITIONAL RULES FOR PERSONAL JURISDICTION AS ARTICULATED BY THE UNITED STATES SUPREME COURT

In order for a forum court to exercise personal jurisdiction over a defendant's conduct, (1) the conduct must satisfy the requirements of the long-arm statute of the forum state, and (2) the conduct must satisfy the "minimum contacts" requirement of the Due Process Clause of the Fourteenth Amendment.⁸ Some state legislatures have enacted long—arm statutes giving the state power to exercise jurisdiction on any basis not inconsistent with the Constitution of that state or of the United States.⁹ Other state statutes specifically enumerate acts or conduct on which a court may exercise personal jurisdiction over any nonresident individual such as, but not limited to, (1) transacting any business

⁷ 15 U.S.C. 1114(1) (2005).

⁸ *The Mashantucket Pequot Tribe v. Raymond Redican, Jr. d/b/a CBNQ FOXWOOD.COM (CIS)*, 309 F.Supp.2d 309, 313 (D. Conn. 2004).

⁹ *See, e.g., CAL. CODE CIV. PROC. § 410.10* (2005).

within the state, (2) committing a tortious act within the state, (3) committing a tortious act outside the state causing injury to person or property within the state, (4) using a computer network located within the state, or (5) contracting to supply services or things within the state.¹⁰ Assuming a defendant's conduct falls into one of these categories, the personal jurisdiction analysis filters down to whether the conduct satisfies the "minimum contacts" requirement of the Due Process Clause of the Fourteenth Amendment.

The United States Supreme Court has issued a series of decisions attempting to establish guidelines concerning what conduct meets the personal jurisdiction requirement of the Due Process clause. In an early decision, *Pennoyer v. Neff*,¹¹ the U.S. Supreme Court held that personal jurisdiction cannot be exercised over a nonresident who is not physically present in the forum state.¹²

More than sixty years later, in *International Shoe Co. v. State of Washington*,¹³ the U.S. Supreme Court revised the rigid rule in *Pennoyer* to a more flexible "minimum contacts" test. The Court held "due process requires only that in order to subject a defendant to a judgment *in personam*, if he be not present within the territory of the forum, he have certain minimum contacts with it such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice."¹⁴ Thus when International Shoe, a Delaware Corporation engaged in the manufacture and sale of shoes, sent salesmen into the State of Washington to reside there, rent permanent sample rooms, and solicit orders from prospective buyers, the U.S. Supreme Court found the necessary minimum contacts for personal jurisdiction in the State of Washington. One problem is that the Court did not clearly define what it meant by "minimum contacts."

In *World-Wide Volkswagen Corp. v. Woodson*,¹⁵ the U.S. Supreme Court elaborated on the "minimum contacts" standard, emphasizing a "reasonable" or "fairness" test. The Court stated the burden on the defendant should be "considered in light of other relevant factors, including the State's interest in adjudicating the dispute, the plaintiff's interest in obtaining convenient and effective relief, the interstate judicial system's interest in obtaining the most efficient resolution of controversies, and the shared interest of the several States in furthering

¹⁰ See, e.g., Conn. Gen. Stat. § 52-59b (2004); MASS. GEN. LAWS ANN. ch. 223A, § 3 (2005); N.Y. CIV. PRAC. LAW AND RULES § 302 (2004); D.C. CODE ANN. § 13-423(a) (2004).

¹¹ 95 U.S. 714 (1877).

¹² *Id.* at 722-23.

¹³ 326 U.S. 310 (1945).

¹⁴ *Id.* at 316.

¹⁵ 444 U.S. 286 (1980).

fundamental substantive social policies.”¹⁶ In light of these factors, the Court held the Due Process Clause forbids the exercise of personal jurisdiction in Oklahoma over a New York automobile retailer whose only tie to Oklahoma was that a New York resident purchased a car from the retailer in New York, drove it to Oklahoma, and had an accident in Oklahoma.¹⁷

In *Calder v. Jones*,¹⁸ the U.S. Supreme Court noted that personal jurisdiction may be exercised over a defendant whose intentional actions were aimed at and had harmful effects on the forum state.¹⁹ This decision is sometimes referred to as the “Calder effects test.”²⁰ So Shirley Jones, the actress residing in California, was able to sue the National Enquirer, a Florida Corporation, in California for libel because the National Enquirer’s tortious actions were expressly aimed at Jones in California, knowing the effects of the libel would have a devastating impact on Jones in California.²¹

A “purposeful availment” factor was intertwined with the “minimum contacts” and “fairness” standards in *Burger King Corp. v. Rudzewicz*.²² Jurisdiction “may not be avoided merely because the defendant did not *physically* enter the forum,” declared the U.S. Supreme Court. “So long as a commercial actor’s efforts are ‘purposefully directed’ toward residents of another State, we have consistently rejected the notion that an absence of physical contacts can defeat personal jurisdiction there.”²³ Consequently, Burger King, a Florida Corporation, was able to get personal jurisdiction in Florida over Rudzewicz, a Burger King franchisee in Michigan, in an action for breach of contract, because Rudzewicz purposefully availed himself of conducting activities in Florida by signing the franchise agreement in Florida, agreeing that all legal disputes would be settled in Florida, and establishing a “20—year relationship that envisioned continuing and wide—reaching contacts with Burger King in Florida.”²⁴

¹⁶ *Id.* at 292.

¹⁷ *Id.* at 295.

¹⁸ 465 U.S. 783 (1984).

¹⁹ *Id.* at 791.

²⁰ See, A. Benjamin Spencer, *Terminating Calder: “Effects” Based Jurisdiction in the Ninth Circuit After Schwarzenegger v. Fred Martin Motor Co.*, 26 WHITTIER L. REV. 197 (2004).

²¹ 465 U.S. at 789—90.

²² 471 U.S. 462 (1985).

²³ *Id.* at 476.

²⁴ *Id.* at 479—80.

The “purposeful availment” factor was further refined in *Asahi Metal Industry Co., Ltd. v. Superior Court of California*²⁵ where the U.S. Supreme Court stated that the “placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State. Additional conduct of the defendant may indicate an intent or purpose to serve the market in the forum State, for example, designing the product for the market in the forum State, advertising in the forum State, establishing channels for providing regular advice to customers in the forum State, or marketing the product through a distributor who has agreed to serve as the sales agent in the forum State.” As a result *Asahi Metal*, a Japanese Company, was not subject to personal jurisdiction in California just because it manufactured and sold tire valve assemblies to a Taiwanese company which used the valves to make tires, some of which were sold in California.²⁶

Some commentators claim there is no clear, coherent doctrine of extra—territorial personal jurisdiction.²⁷ Nevertheless, the current state of the traditional rules for extra-territorial personal jurisdiction as established by the U.S. Supreme Court were summarized by one court as follows:

Under traditional jurisdictional analysis, the exercise of specific personal jurisdiction requires that the “plaintiff’s cause of action is related to or arises out of the defendant’s contacts with the forum.” Beyond this basic nexus, for a finding of specific personal jurisdiction, the Due Process Clause requires (1) that the “defendant have constitutionally sufficient ‘minimum contacts’ with the forum,” and (2) that “subjecting the defendant to the court’s jurisdiction comports with ‘traditional notions of fair play and substantial justice.’” The first requirement, “minimum contacts,” has been defined as “some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum State, thus invoking the benefits and protections of its laws.” Second, jurisdiction exists only if its exercise “comports with traditional notions of fair play and substantial justice,” *i.e.*, the defendant “should reasonably anticipate being haled into court” in that forum.²⁸

²⁵ 480 U.S. 102 (1987).

²⁶ *Id.* at 112—13.

²⁷ See *e.g.*, Robert J. Condlin, “*Defendant Veto*” or “*Totality of the Circumstances*”? *It’s Time for the Supreme Court to Straighten Out the Personal Jurisdiction Standard Once Again*, 54 CATH. U.L. REV. 53 (2004); Kendrick D. Nguyen, *Redefining the Threshold for Personal Jurisdiction: Contact and the Presumption of Fairness*, 83 B.U. L. REV. 253 (2003).

²⁸ *Toys “R” Us, Inc. v. Step Two, S.A.*, 318 F.3d 446, 451 (3rd Cir.2003).

The U.S. Supreme Court established these traditional, extra-territorial, personal jurisdiction rules before widespread public use of the Internet. Now the question arises: Do we need new standards for personal jurisdiction based on a defendant's operation of a website? Some courts have tried to fashion new rules.

III. STANDARDS FOR PERSONAL JURISDICTION DEVELOPED BY FEDERAL COURTS BASED ON A DEFENDANT'S OPERATION OF A WEBSITE

A federal district court in *Zippo Manufacturing Company v. Zippo Dot Com, Inc.*²⁹ was the first to establish personal jurisdiction standards based on a defendant's operation of a website. The court believed "the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet."³⁰ The court created a sliding scale which "is consistent with well developed personal jurisdiction principles."³¹

A. *The Zippo Sliding Scale*

The sliding scale is a spectrum divided into three different areas:

- (1) "At one end of the spectrum are situations where a defendant clearly does business over the Internet. If the defendant enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet, personal jurisdiction is proper."³²
- (2) "At the opposite end are situations where a defendant has simply posted information on an Internet website which is accessible to users in foreign jurisdictions. A passive website that does little more than make information available to those who are interested in it, is not grounds for the exercise of personal jurisdiction."³³
- (3) "The middle ground is occupied by interactive websites where a user can exchange information with the host computer. In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the website."³⁴

B. *First Zippo Category—Clearly Doing Business*

Consider three scenarios: First, CompuServe, the computer giant in Ohio, makes a contract with Patterson in Texas whereby Patterson sub-

²⁹ 952 F.Supp. 1119 (W.D. Pa. 1997).

³⁰ *Id.* at 1124.

³¹ *Id.*

³² *Id.*

³³ *Id.*

³⁴ *Id.*

scribes to CompuServe's financial services over the Internet, and Patterson publishes items of "shareware" on the CompuServe system for others to use and purchase. The written agreement between CompuServe and Patterson states the contract is entered into in Ohio and their agreement is to be governed by Ohio law. Over a three-year period, Patterson electronically transmits 32 master software files to CompuServe in Ohio where they are stored in CompuServe's system in Ohio. Patterson has sold software to at least 12 Ohio residents, but Patterson has never visited Ohio. When a dispute arises between Patterson and CompuServe over ownership of trademarks on CompuServe's system, and CompuServe sues Patterson in an Ohio federal district court, are Patterson's contacts in Ohio sufficient to support the exercise of personal jurisdiction?³⁵

According to the *Zippo* court, this scenario falls within the first category. Patterson is clearly doing business over the Internet in Ohio. He subscribed to CompuServe, loaded his software onto the CompuServe system for others to use, and he made contracts to be governed by Ohio law, with an Ohio-base company. He repeatedly sent his software by electronic links to the CompuServe system in Ohio, and he advertised on the CompuServe system, therefore giving the Ohio court the necessary personal jurisdiction to take the case.³⁶

C. *Second Zippo Category—Passive Website*

Second, Bensusan is the creator and operator of jazz clubs around the world, including one in New York City under the registered trademark, "The Blue Note." King owns and operates a small jazz club in Missouri called the "Blue Note." King sets up an Internet website giving general information about the club in Missouri, a calendar of events, and ticketing information. The ticketing information gives the location of outlets near the club where one can buy tickets as well as a telephone number for charge-by-phone ticket orders, which are available for pick-up on the night of the show at the club in Missouri. Approximately 99% of the patronage is local, primarily students from the University of Missouri.³⁷

If Bensusan sues King in a New York district court for trademark infringement, this scenario falls within the second *Zippo* category. King was running a passive website. The New York federal district court declined jurisdiction because creating a website, without more, is not an act purposefully directed toward the State of New York.³⁸

³⁵ CompuServe, Inc. v. Patterson, 89 F.3d 1257 (6th Cir. 1996).

³⁶ *Id.* at 1264.

³⁷ Bensusan Restaurant Corporation v. King, 937 F.Supp. 295 (S.D.N.Y. 1996).

³⁸ *Id.* at 301.

D. Third Zippo Category—The Middle Ground

Third, assume CyberGold, Inc. in California sets up a website, www.cybergold.com. The website advertises an upcoming service which will maintain a list of Internet users and give each user a free mailbox. Each subscribing user provides CyberGold with the user's areas of interest. In return CyberGold forwards advertisements to users that match their interests. In addition CyberGold plans to provide users with incentives for reading advertisements. CyberGold will earn revenue from advertisers. The site is not yet in operation. Users in Missouri have accessed the site at least 131 times. If Maritz in Missouri sues CyberGold for trademark infringement in a Missouri federal district court, do CyberGold's promotional activities provide the necessary minimum contacts to give the Missouri court personal jurisdiction over CyberGold?³⁹

This scenario falls into the third *Zippo* category, the middle ground, occupied by interactive websites where a user can exchange information with the host computer. In this situation the court has to determine the level of interactivity and commercial nature of the exchange of information that occurs on the website. The court looks at several factors to determine if the defendant's conduct meets the minimum contacts necessary for due process: the nature and quality of the contacts with the forum state, the quantity of those contacts, the relation of the cause of action to the contacts, the interest of the forum state in providing a forum for its residents, and the convenience of the parties.⁴⁰

In this case the Missouri court found that CyberGold solicited subscribers in Missouri. The quantity of the contacts was at least 131 in number. CyberGold set up the website in a way that may injure Maritz in Missouri through trademark infringement. CyberGold, through the Internet, has purposefully availed itself of the privilege of doing business in Missouri such that it could reasonably anticipate being haled into court in Missouri. CyberGold has not shown that it is so burdened by defending itself in Missouri that traditional notions of fair play and substantial justice are implicated. Thus the Missouri court exercised personal jurisdiction over CyberGold.⁴¹

E. The Zippo Decision

In *Zippo*, Plaintiff, Zippo Manufacturing Company in Pennsylvania, manufacturers "Zippo" tobacco lighters. Defendant, Zippo Dot Com, Inc. in California, operates a news service website using the domain names zippo.com, zippo.net, and zippo.news. Users may subscribe to the defen-

³⁹ *Maritz, Inc. v. CyberGold, Inc.*, 947 F.Supp. 1328 (E.D. Miss. 1996).

⁴⁰ *Id.* at 1332.

⁴¹ *Id.* at 1332—1334.

dant's news service by filling out an on—line application and paying by credit card over the Internet or the telephone. Approximately two percent of the defendant's subscribers reside in Pennsylvania, 3,000 in number. The defendant's activities occur almost exclusively over the Internet. All of the defendant's offices, employees, and Internet servers are in California.⁴²

When the plaintiff sued the defendant in Pennsylvania for trademark infringement, the federal district court in Pennsylvania had to decide whether it could exercise personal jurisdiction over the defendant. The court noted the situation here was certainly more than a passive website as in *Bensusan*. Further this was not an interactivity case as in *Maritz*. Instead the defendant was “doing business over the Internet” as in *CompuServe*. This was a case that falls in the first category of the *Zippo* sliding scale. The defendant's conducting of electronic commerce with Pennsylvania residents constituted the purposeful availment of doing business in Pennsylvania.⁴³

After the *Zippo* decision, most courts in Internet personal jurisdiction cases have embraced the *Zippo* sliding scale in whole or in part, and sometimes have modified it by adding elements from the traditional standards for personal jurisdiction as enunciated by the U.S. Supreme Court in *International Shoe* and its progeny.⁴⁴ One might say *Zippo* is the “gold standard” today to determine whether a federal district court has jurisdiction over a company that does not have any offices or agents in the forum state, and the only contacts with the forum state are through the Internet.

IV. RECENT PERSONAL JURISDICTION, TRADEMARK INFRINGEMENT CASES BASED ON INTERNET ACTIVITY

There are numerous recent case decisions involving personal jurisdiction based on Internet activity, especially relating to trademark infringement. The typical case concerns the use of another's trademark on the Internet where such use is likely to cause confusion among consumers as to the source of the goods or services.⁴⁵

⁴² *Zippo Manufacturing Company v. Zippo Dot Corn, Inc.*, 952 F. Supp. 1119, 1121 (W.D. Pa. 1997).

⁴³ *Id.* at 1125—26.

⁴⁴ See, David M. Fritch, *Issues in the Third Circuit: Beyond Zippo's "Sliding Scale"—The Third Circuit Clarifies Internet-Based Personal Jurisdiction Analysis*, 49 VILL. L. REV. 931 (2004); The Harvard Law Review Association, *No Bad Puns: A Different Approach to the Problem of Personal Jurisdiction and the Internet*, 116 HARV. L. REV. 1821 (2003).

⁴⁵ 15 U.S.C. 1114(1) (2005).

A. The Tribe

In *The Mashantucket Pequot Tribe v. Redican*,⁴⁶ a federal district court in Connecticut gives an exhaustive analysis of personal jurisdiction, Internet activity cases under the *Zippo* standard, the traditional standard, and a combination of both. The Mashantucket Pequot Tribe owns and operates the Foxwoods Resorts and Casino in Connecticut. It owns the federal trademark “Foxwoods” for casino services, newsletter publications, apparel, hotel accommodations, and restaurant operations. Raymond Redican, Jr., a citizen of Massachusetts, registered the domain name, foxwood.com, which derived revenue from advertisements, and which enabled website users to access the websites of on-line casinos and marketers by clicking on icons. After Redican made at least two visits to Connecticut, and made multiple attempts, by e-mail and by phone, to sell the foxwood.com trademark to the Tribe, the Tribe sued Redican in a Connecticut federal district court for, among other things, trademark infringement. Redican moved to dismiss claiming the court could not exercise personal jurisdiction over him in Connecticut.⁴⁷

The court placed Redican’s activity in the middle ground on the *Zippo* scale—that area occupied by interactive websites where a user can exchange information with the host computer. Thus the court proceeded to determine jurisdiction by examining the level of interactivity and commercial nature of the exchange of information that occurred on Redican’s website. The court noted there were significant minimum contacts in Connecticut by way of on-line gambling by Connecticut residents, as well as Redican’s visits, e-mails, and phone calls to Connecticut. Concerning whether the exercise of jurisdiction in Connecticut would be reasonable, the court reviewed (1) the burden the exercise of jurisdiction would impose on Redican, (2) the interests of Connecticut in adjudicating the case, (3) the Tribe’s interest in obtaining convenient and effective relief, (4) the interstate judicial system’s interest in obtaining the most efficient resolution of the controversy, and (5) the shared interest of the states in furthering substantive social policies. Even though there would be a heavy burden on Redican to appear in a Connecticut court because he was unemployed and recently disabled, the other four factors favored Connecticut jurisdiction - especially since the trademark infringement was purposefully directed

⁴⁶ 309 F.Supp.2d 309 (D. Conn. 2004).

⁴⁷ *Id.* at 311—13.

at Foxwoods in Connecticut and might injure the Tribe's reputation in Connecticut.⁴⁸

B. Toys "R" Us

In *Toys "R" Us, Inc. v. Step Two, S.A.*,⁴⁹ Toy "R" Us, headquartered in New Jersey, owns toy stores nationwide, including a network of "Imaginarium" stores for the sale of educational toys and games. It has a website, *imaginarium.com*. Step Two is a Spanish corporation that owns and operates toy stores in Spain and nine other countries under the name "Imaginarium." Step Two does not operate any stores or have any employees in the United States. On its website, *imaginarium.es*, it offers merchandise for sale in Spanish. The prices are in Spanish pesetas and Buros, and goods ordered from its site can be shipped only in Spain. Toys "R" Us sued Step Two in a New Jersey federal district court for trademark infringement. Step Two moved to dismiss for lack of personal jurisdiction.⁵⁰

Even though Step Two's site was clearly commercially interactive, the court found no evidence that Step Two had purposefully availed itself of the privilege of engaging in activity in New Jersey. There were no business trips to New Jersey, no telephone or fax communications to New Jersey, no purchase contract with New Jersey residents, no contract that applied the law of New Jersey, no advertisements in newspapers distributed in New Jersey, and no evidence that Step Two conducted business in New Jersey by directly targeting its website to New Jersey. Thus the federal court of appeals affirmed the district court's decision finding no jurisdiction based on the evidence to date.⁵¹

⁴⁸ *Id.* at 320. For other examples of recent trademark cases finding personal jurisdiction based on interactive Internet activity, see *Broadcast Marketing International, Ltd. v. Prosource Sales and Marketing, Inc.*, 345 F.Supp.2d 1053 (D. Conn. 2004) (holding an interactive website in Nevada was subject to jurisdiction in a Connecticut federal district court based on website sales of at least \$518.27 worth of digital media products to residents in Connecticut); *Audi and Volkswagon of America, Inc. v. Bob D'amato d/b/a Quatro Enthusiasts*, 341 F.Supp.2d 734 (E.D. Mich. 2004) (deciding defendant's interactive website selling counterfeit hats, shirts, and cooler bags subjected defendant to personal jurisdiction in a Michigan federal district court); *Morris Material Handling, Inc. v. Harnischfeger Technologies, Inc.*, 334 F.Supp.2d 1118 (E.D. Wis. 2004) (ruling Wisconsin federal district court had jurisdiction over non-resident Finnish corporation based on interactive website selling industrial crane and host products where the defendant clearly directed his activities at the U.S. market).

⁴⁹ 318 F.3d 446 (3rd. Cir. 2003).

⁵⁰ *Id.* at 448—51.

⁵¹ *Id.* at 453-55. For other examples of recent trademark cases finding insufficient personal jurisdiction based on interactive Internet activity alone, see *Carefirst of Maryland, Inc. v. Carefirst Pregnancy Centers, Inc.*, 334 F.3d 390 (4th Cir. 2003) (holding interactive website in Illinois for health care and health educational services did not give a Maryland federal district court personal jurisdiction, especially since the defendant's

C. Foot Locker

In *Foot Locker Retail, Inc. v. SBH, Inc.*,⁵² Footlocker, headquartered in New York, sells footwear worldwide and owns the trademark rights in the KINNEY family of marks. SBH is a corporation in Missouri with two employees. It is a trademark and patent holding company that purchases intellectual property, and holds it with the goal of licensing or selling the property to third parties. SBH has no bank accounts, property, or other assets in New York. It has never made any contract in New York, nor does it derive revenue from New York. It maintains a passive website, www.sbhgroup.com, which describes its business and services, but does not solicit customers. Visitors to the website cannot transact business with SBH, but the website does give an e-mail address by which website visitors may contact SBH to discuss its services. When SBH allegedly attempted to collaborate with others to use and license KINNEY marks and to represent falsely that SBH is the owner of the marks, Foot Locker sued SBH in a New York federal district court. SBH moved to dismiss for lack of personal jurisdiction.⁵³

The court recognized that a passive website alone in Missouri was not enough for the exercise of personal jurisdiction in New York. However, the court found additional non-website-related activity that gave it the power to exercise personal jurisdiction. For example, SBH purposefully availed itself of the privilege of conducting activities in New York when it attempted to license applications for KINNEY marks to Footstar, a New York shoe company. In addition the reasonableness factors for due process did not present a compelling case that the court's exercise of personal jurisdiction over SBH would be unreasonable.⁵⁴

website was local in character, and it did not direct electronic activity into Maryland with the manifest intent in engaging in business or other interactions within Maryland); *Barton Southern Company, Inc. v. Manhole Barrier Systems, Inc.*, 318 F.Supp.2d 1174 (N.D. Ga. 2004) (deciding a federal district court in Georgia had no personal jurisdiction to hear a case against a nonresident operator of a website that sold manhole security devices, especially because the defendant had no customers in Georgia, and although the website allowed a customer to fill out an electronic order form, it did not allow customers to make payments or complete orders); *Gail D. Lindgregn, d/b/a Moonbeams v. GDT, LLC*, 312 F.Supp.2d 1125 (S.D. Iowa 2004) (ruling an Iowa federal district court had no personal jurisdiction over a California resident whose interactive website for selling jewelry for jeans was not purposefully directed at Iowa).

⁵² No. 03 Civ. 5050 (DAB), 2005 U.S. Dist. LEXIS 599 (S.D.N.Y. Jan. 18, 2005).

⁵³ *Id.* at *2-6.

⁵⁴ *Id.* at *15-22. For other examples of recent trademark cases on the issue of personal jurisdiction based on passive websites, see *Impact Productions, Inc. v. Impact Productions, LLC*, 341 F.Supp.2d 1186 (D. Colo. 2004) (holding a Colorado federal district court did not have personal jurisdiction over a New Jersey resident who operated a passive website for special event planning); *American Wholesalers Underwriting, Ltd. v. American Wholesale Insurance Group, Inc.*, 312 F.Supp.2d 247 (D. Conn. 2004) (deciding a

V. HOW TO AVOID HAVING YOUR INTERNET ACTIVITY SUBJECT TO A FOREIGN JURISDICTION

Having reviewed the traditional rules for personal jurisdiction as articulated by the U.S. Supreme Court in *International Shoe* and its progeny, the *Zippo* personal jurisdiction standards for commercial Internet activity, and recent personal jurisdiction, trademark infringement cases based on Internet activity, the question arises: How can one possibly avoid having commercial Internet activity subject to a foreign jurisdiction in a trademark infringement dispute?

Conduct a trademark search to make sure your website name is not so similar to any other mark or website name selling similar goods or services as to be likely to cause confusion among consumers as to the source of the goods or services offered for sale. Comply with all applicable laws, especially consumer protection laws that relate to false advertising and unfair competition. Do not make promises you cannot keep; deliver your goods or services as promised. Consider setting up a passive website rather than an interactive website.

Assuming you set up an interactive website, create a “terms of agreement” link stating the purchaser or user agrees to have any disputes settled in your home state. The user must click on the “I agree” icon before making any purchases. Keep communications such as telephone and mail outside of your home state to a minimum. Avoid or minimize national advertising media such as radio, television, newspapers, magazines, listings in telephone directories, and catalogs. Avoid posting links to websites of advertisers or customers based in other states. Maintain records of all sales made to residents in other states, and keep track of contacts made to your Internet website.

In general, an interactive website, combined with other contacts intended to reach out of state, increases the likelihood you will be subject to personal jurisdiction in other states. Returning to the General Electronics situation discussed in the introduction to this paper, selling appliances and electrical products on an interactive website, www.genelectric.com, in Massachusetts, creates a high likelihood of a trademark infringement suit brought by General Electric in

federal district court in Connecticut had no jurisdiction over a North Carolina defendant that operated a passive website for the sale of insurance services, especially since no sales were made in Connecticut); *Robert Novak d/b/a Pets Warehouse and Petswarehouse.com v. Overture Services, Inc., et. al.*, 309 F.Supp.2d 446 (E.D.N.Y. 2004) (referring to one of the non-resident defendants, even though he ran a passive website, other activities were subject to personal jurisdiction in New York, such as doing \$17,000 worth of business in New York, thus purposefully availing himself of the privilege of doing business in New York).

Connecticut, subjecting General Electronics to the personal jurisdiction of a Connecticut federal district court.

VI. CONCLUSION

The rules for traditional personal jurisdiction are rather well settled through *International Shoe* and its progeny. A court may exercise personal jurisdiction if the defendant is physically present within the territorial jurisdiction of the court or if the defendant has certain minimum contacts with the territory of the forum such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice.⁵⁵ *Zippo* has not changed the rules. It merely sets up a framework for deciding personal jurisdiction based on Internet activity. What is not clear is how the rules will be applied in each case. Those operating a commercial website over the Internet must be aware of the rules. As recently stated by one court:

Attempting to apply established trademark law in the fast-developing world of the Internet is somewhat like trying to board a moving bus. The court finds the same is true when attempting to apply traditional notions of personal jurisdiction. While millions of people communicate in this way every day, it is doubtful that many of them give any thought to the question of whether their conduct will make them subject to the jurisdiction of a distant court. Yet, this is an issue that the courts have been struggling to resolve on a case—by—case basis.⁵⁶

⁵⁵ *International Shoe*, 326 U.S. at 316.

⁵⁶ *The Mashantucket Pequot Tribe v. Raymond Redican, Jr. d/b/a CBNO FOXWOOD.COM (CIS)*, 309 F.Supp.2d 309, 315 (D. Conn. 2004).

THE ALTERNATIVE MINIMUM TAX FOR CORPORATIONS AND A VALUE ADDED TAX AS A REPLACEMENT

by WILLIS W. HAGEN II*

I. INTRODUCTION

An underlying premise of our federal income tax system is that the amount of tax should be based on the amount of income earned by the taxpayer. A corollary of this proposition is the concept of horizontal equity which exists where taxpayers of equivalent economic income pay the same amount of tax. The alternative minimum tax (AMT) was originally intended to achieve this policy, but it has failed.¹

The AMT came about because Congress was concerned that some taxpayers were able to avoid or reduce their tax liability by taking advantage of incentives in the tax law. While taxpayers can reduce their tax liability by utilizing various deductions and exclusions, Congress believed that inequity results when taxpayers with substantial economic income do not pay their fair share of the tax burden. Because this phenomena occurs for any taxpayer, Congress created an AMT for

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¹ In the summer of 1994, the American Tax Policy Institute held a meeting of tax experts from the private sector, government, nonprofit sector and academia to discuss the alternative minimum tax. The consensus was that the current AMT system is not meeting its originally intended goals, is unduly complex, and is not readily administrable by the taxpayers or the government. Stewart S. Karlinsky, *A Report on Reforming the Alternative Minimum Tax System*, 12 AM. J. TAX POL'Y 139 (1995).

both individuals and corporations. This article, however, will focus only on the corporate AMT.

Despite the existence of the AMT, many large corporations pay very little federal income tax. The Institute on Taxation and Economic Policy issued a report in 2000 based on data from 1996, 1997, and 1998 which concluded that 133 of the 250 largest U.S. corporations paid tax at less than half of the regular corporate rate.² In 1998, forty-one companies reported \$25 billion in pretax profits but paid no federal taxes.³ Consequently, it is evident that the AMT is not fulfilling the need to create an equitable tax system.

This article will discuss the development of the AMT and explain how the AMT is calculated. Further, this article will analyze the meaning of income under the Constitution as it relates to the AMT and discuss the theoretical shortcomings of the AMT. Then, this article will explain how a value added tax system can be implemented, with a rationale for replacing the AMT with a value added tax system.

II. GENESIS OF THE AMT

The current AMT had its genesis as an add-on minimum tax that was first enacted in 1969.⁴ The House Ways and Means Committee Report for the 1969 tax bill stated that in 1964 over 1,100 individual returns having adjusted gross income over \$200,000 reported average tax liability of only twenty-two percent of economic income.⁵ Because the tax paid by these individuals was significantly less than the amount paid by the majority of other taxpayers, Congress felt compelled to rectify the inequity in the tax system.

Rather than starting with taxable income or adjusted gross income, the original add-on minimum tax began by summing specific tax preferences and then reducing that amount by either a statutory amount or a part of the regular federal income tax. The minimum tax amount was then added to the regular income tax to calculate the total tax liability of the taxpayer.⁶ Over the years of the add-on minimum tax, the statutory amount and the offset of regular income tax was changed, altering the resulting tax liability.

The AMT was an attempt to create a tax system that has a comprehensive income tax base. By having a comprehensive income tax base, theoretically there would be fairness, in that the economic income

² WILLIAM H. HOFFMAN, JR., WILLIAM A. RAABE, JAMES E. SMITH, AND DAVID M. MALONEY, WEST FEDERAL TAXATION: CORPORATIONS, PARTNERSHIPS, ESTATES & TRUSTS 6-3 (2005).

³ *Id.*

⁴ Pub. L. No. 91-172, § 301, 83 Stat. 487, 580-86.

⁵ H.R. Rep. No. 413, 91st Cong., 1st Sess. 78 (1969).

⁶ Karlinsky, *supra* note 1, at 139.

of a party would be treated as the party's taxable income. This was intended to achieve two goals: 1) to create a universal tax liability, and 2) to ensure that those who earn the same amount of income paid the same amount of tax.⁷ Universal tax liability is created when there is such a broad definition of income that all economic income is included in the tax base. Accordingly, if taxable income were the equivalent of economic income, then every entity would pay taxes based on any increases to its wealth.

For various political reasons, there are exclusions, deductions, and credits that cause taxable income to differ from economic income. One reason may be that special tax treatment, such as an exclusion from income from home ownership, serves an important social function. Another reason is that special tax treatment is based on moral concerns, as is the case for tax benefits for low income housing. A third reason is that special tax treatment may serve an economic goal. This occurs as a result of the exclusion for interest received on state and local bonds which lowers the cost to states of borrowing money⁸ and for credits that exist for the construction of low-income housing.⁹

By taxing preferences, such as deductions, exclusions, exemptions, and credits, the AMT attempts to tax economic income. While there are literally hundreds of tax preferences in the Internal Revenue Code, the minimum tax systems have never attached more than twenty of these preferences at any given time.¹⁰ Thus, the AMT does not achieve its purpose of taxing economic income.

If we define effectiveness as the collection of tax revenue from taxpayers who may otherwise escape taxation, the AMT also falls short. To illustrate, the AMT does not tax significant exclusions from income

⁷ See Beverly Moran, *Stargazing: The Alternative Minimum Tax for Individuals and Future Tax Reform*, 69 OR. L. REV. 223, 240 (1990).

⁸ For example, the average investor may be able to receive 10% before tax and 7% after tax from a corporate bond but may be able to receive 7% tax free from a state bond. Consequently, the federal government assists states in reducing their borrowing costs by making their interest tax-exempt. Moran, *supra* note 7, at 240 n. 63.

⁹ The low-income housing credit provided by I.R.C. § 42 increases the after-tax return on such investments. *Id.* at 240 n. 64.

¹⁰ *Id.* at 244. Tax preferences include: seven percent of the exclusion from gross income associated with gains on the sale of certain small business stock under §1202, the percentage depletion in excess of the property's adjusted basis, excess intangible drilling costs reduced by sixty-five percent of net income from oil, gas, and geothermal properties, interest on certain private activity bonds, excess of accelerated over straight-line depreciation on real property placed in service before 1987, excess of accelerated over straight-line depreciation on leased personal property placed in service before 1987, excess of amortization allowance over depreciation on pre-1987 certified pollution control facilities., WILLIAM H. HOFFMAN, JR., WILLIAM A. RAABE, JAMES E. SMITH, AND DAVID M. MALONEY, WEST FEDERAL TAXATION: COMPREHENSIVE VOLUME 6-3 (2006) [hereinafter COMPREHENSIVE VOLUME].

such as the step-up in basis at death, the general exclusion of state and local bond interest, or tax deferred annuities and pensions.¹¹

III. CALCULATION OF THE AMT

The corporate AMT is an additional tax computed using a different method than the regular corporate tax. The AMT is a tax equal to the excess of the tentative minimum tax over the regular tax for the year.¹² The AMT is a tax based on a calculation of an alternative minimum taxable income (AMTI)¹³ that is different from the calculation for regular taxable income. While the regular corporate tax rate is a progressive tax that ranges from zero to thirty-eight percent, the AMT is a flat twenty percent.¹⁴ Furthermore, the regular corporate tax has many deductions and exclusions, while the AMT has a broader tax base because of its inclusion of some of these items in income. AMTI is calculated by adding specific preferences and making certain adjustments to the regular taxable income.¹⁵ These preferences and adjustments reduce regular taxable income, but are added back or disallowed for purposes of calculating the AMT.

The AMTI begins with the taxable income before any net operating loss (NOL) deduction of the corporation.¹⁶ From taxable income, the taxpayer (1) adds designated preference items, such as tax-exempt interest income or amortization claimed on certified pollution control facilities, 2) makes an adjustment to current earnings based on the timing of certain deductions,¹⁷ 3) subtracts an exemption amount (e.g. \$40,000 for a regular corporation).¹⁸ Then, the taxpayer must pay the

¹¹ Moran *supra* note 7, at 245.

¹² I.R.C. § 55(a) (2004).

¹³ The phrase “alternative minimum taxable income” means the taxable income of the taxpayer including the adjustments provided in I.R.C. sections 56 and 58, and increased by the amount of the items of tax preference described in I.R.C. § 57. I.R.C. § 55(b)(2) (2004).

¹⁴ I.R.C. § 11(b)(1) and I.R.C. § 55(b)(1)(B) (2004).

¹⁵ I.R.C. § 55(b)(2)(B) (2004).

¹⁶ HOFFMAN, *supra* note 2, at 6-4.

¹⁷ For this adjustment, there must be a calculation of the adjusted current earnings (ACE). ACE takes into account exclusion items, depreciation, disallowed items, LIFO recapture adjustments, and other items. These items take into account the mismatching of earning and profits and taxable income. *Id.* at 6-9.

¹⁸ I.R.C. § 55(d)(2) (2004); The phrase “regular corporation” is used to describe a “C corporation.” A “C corporation” is a corporation that is taxed under subchapter C of Chapter 1 of Title 26 of the U.S. Code. Title 26 of the U.S. Code is known as the Internal Revenue Code (I.R.C.). Unless a corporation qualifies as a non-profit corporation or a “Subchapter S corporation,” a corporation is taxed on the income it earns by subchapter C of Chapter 1 of the I.R.C. See generally COMPREHENSIVE VOLUME, *supra* note 10, at C-4, C-20.

greater of the resulting AMT reduced by the foreign tax credit or the regular income tax reduced by all allowable tax credits.

The current procedure for calculating the AMT provides for a small corporation exemption.¹⁹ Under the small corporation exemption, a corporation that has average gross receipts of \$5 million or less for the first three years is exempt from the AMT.²⁰ If a corporation meets this test, it will continue to be treated as a small corporation as long as its average gross receipts for the three years before the taxable year do not exceed \$7.5 million.²¹

The most significant differences between the regular income tax and the AMT involve the treatment of depreciation, NOLs, tax preferences, and the adjusted current earnings. In calculating the AMT, personal property is depreciated using the 150-percent declining balance method.²² In calculating the regular tax, personal property is depreciated using the 200-percent declining balance method.²³

Rather than the regular tax NOL deduction, AMTI is calculated using the AMT NOL deduction.²⁴ An NOL occurs when a taxpayer has a negative taxable income. The AMT NOL cannot exceed 90 percent of the AMTI before the AMT NOL is deducted.²⁵ For the regular tax and the AMT, the NOL of a corporation can be carried back two years and forward twenty years to offset the taxable income of those years.²⁶ This has the effect of leveling the tax liability of the corporation over time.

To calculate AMTI, specific tax preferences must be included. Some of the more common tax preferences involve: accelerated depreciation over straight-line on real property placed in service before 1987; tax-exempt interest on state and local bonds in which the revenue of such bonds is not used for the essential function of the government; percentage depletion claimed in excess of the adjusted basis of the property; and the excess of intangible drilling costs over ten-year amortization if in excess of 65 percent of net oil and gas income for

¹⁹ I.R.C. § 55(e) (2004).

²⁰ I.R.C. § 55(e)(1)(B) (2004).

²¹ I.R.C. § 55(e)(1)(A) (2004).

²² Terrence R. Chorvat & Michael S. Knoll, *The Case For Repealing the Corporate Alternative Minimum Tax*, 56 SMU L. REV. 305, 312 (2003). The straight-line method is used for both the regular income tax and the AMT. I.R.C. §§ 56, 168(b) (2004).

²³ If the property has a class life of ten years or less, then it is depreciated using the 200-percent declining balance method. If the property has a class life of 15 or 20 years, then it is depreciated using the 150-percent declining balance method. With both of these methods, the taxpayer switches to the straight-line method starting with the year in which the straight-line method results in a higher deduction. Chorvat & Knoll, *supra* note 22, at 312.

²⁴ I.R.C. § 56(d) (2004).

²⁵ I.R.C. § 56(d)(1)(A) (2004).

²⁶ I.R.C. § 172(b)(1)(A) (2004).

integrated oil companies.²⁷ Preferences such as these cause income that would not otherwise be taxable to become taxable.

Adjusted current earning²⁸ is a calculation which is used to prevent the mismatching of earnings and profits (E&P) and taxable income from producing inequitable results.²⁹ While most items used to calculate E&P and ACE are identical, specific items are different. The ACE adjustment makes adjustments for items such as exclusions, disallowed items, depreciation, intangible drilling costs, installment sales, LIFO inventory adjustments, and organizational expense amortization.³⁰

IV. UNCONSTITUTIONALITY OF THE AMT

The power to tax is granted to Congress by Article I, Section 8 of the Constitution which provides that Congress “shall have the power to lay and collect taxes, duties, imports, and excises”³¹ This power, however, is restricted by Article I, Section 9(4) which states that “no capitation, or other direct, tax shall be laid”³² In applying this provision, the landmark case of *Pollock v. Farmer’s Loan & Trust Co.* held that an income tax was a direct tax that was unconstitutional unless it was apportioned to the states.³³

To implement a federal income tax, the states ratified the Sixteenth Amendment, which provides that “Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states”³⁴ The Sixteenth Amendment, however, does not define income, but merely removes the need for Congress to apportion income taxes to the states.³⁵ Moreover, it does not confer or expand the taxing power of Congress,³⁶ nor does it limit or distinguish the kinds of income that can be taxed.³⁷

²⁷ HOFFMAN, *supra* note 2, at 6-6.

²⁸ The phrase “adjusted current earnings” means the AMTI determined with the adjustments and determined without regard to the alternative tax net operating loss deduction. I.R.C. § 56(g)(3) (2004).

²⁹ HOFFMAN, *supra* note 2, at 6-6.

³⁰ Treas. Reg. § 1.65(g)-1(f) (2004).

³¹ U.S. CONST. art. I § 8.

³² U.S. CONST. art. I § 9 (4).

³³ *Pollock v. Farmers Loan & Trust Co.*, 157 U.S. 429, 573-74 (1895). Furthermore, the court held that any tax on income that came from property was the equivalent of taxes on the property itself and therefore was a direct tax that had to be apportioned.

³⁴ U.S. CONST. amend. XVI.

³⁵ *Peck & Co., Inc. v. Lowe*, 247 U.S. 165 (1918).

³⁶ *Metcalfe & Eddy v. Mitchell*, 269 U.S. 514 (1926); *Evans v. Gore*, 253 U.S. 245 (1920); *Penn Mut. Indemnity Co. v. Comm.*, 32 TC 653 (1953), *aff’d* 277 F.2d 16 (1960).

³⁷ JACOB MERTENS, JR., MERTENS-THE LAW OF FEDERAL INCOME TAXATION, vol. 1, ch. 4, § 4:10, at 4-19 (revised by John Old, 1997).

The resolution of whether a particular aspect of the income tax law is constitutional under the Sixteenth Amendment must be ascertained by determining whether it ultimately taxes income. In interpreting the Sixteenth Amendment, the Supreme Court has stated that income must be ascertained “according to truth and substance, without regard to form.”³⁸ Accordingly, the Supreme Court had held that income must be derived from the “gain or increase arising from corporate activities” and not simply an accounting manipulation of numbers.³⁹

If income, as calculated by the regular income tax method, constitutes the “truth and substance” of income, then using different additions or deductions, as used by the AMT, would be inconsistent with the “truth and substance” of the matter. Alternatively, if income, as calculated by the AMT, constitutes the “truth and substance” of income, then using different additions and deductions, as used by the regular tax, would not be the “truth and substance” of the matter. Since the methods used to arrive at the regular income tax have generally been accepted by the courts, the AMT should either be removed from the tax law or replaced with a procedure that is consistent with the interpretation of income by the Supreme Court.

Shortly after the ratification of the Sixteenth Amendment, the Supreme Court began to address the meaning of the term “income” as used in that amendment and the revenue acts.⁴⁰ Specifically, the Supreme Court stated that the term “income” should mean that which is used in “common speech.”⁴¹ The concept of “common speech” implies that the concept is generally understood and consistently held by the population. Like the common understanding, classic economic definitions focused on the concept that receipts needed to be regular, recurrent, or periodic because they would not impair capital.⁴² Conversely, irregular receipts were not considered income because a prudent man would treat them as capital and not income.⁴³

By including preferences and adjustments, the AMT has a different definition of income than the regular tax. This is inconsistent with the

³⁸ *Eisner v. Macomber*, 252 U.S. 189, 205 (1920).

³⁹ In many cases, the Court has stated in a frequently quoted passage, that “[i]ncome may be defined as the gain derived from capital, from labor, or from both combined. *Doyle v. Mitchell Bros. Co.*, 247 U.S. 179, 185 (1918).

⁴⁰ *Doyle v. Mitchell*, 247 U.S. at 185.

⁴¹ *Eisner v. Macomber*, 252 U.S. at 189, 206-7 (1920).

⁴² See Marjorie E. Kornhauser, *The Constitutional Meaning of Income and the Income Taxation of Gifts*, 25 CONN. L. REV. 1, 9 (1992).

⁴³ *Id.* at 9. One classic definition of income was: “[t]hat portion of stock or wealth which the possessor may annually consume without injury to his permanent resources.” THOMAS MALTHUS, DEFINITIONS IN POLITICAL ECONOMY 238 (Reprints of Economic Classics ed. 1963).

fundamental construct of income as expressed by the Supreme Court in *Eisner v. Macomber*.⁴⁴ In its discussion of the interpretation of income, the Court in *Eisner* stated that “Congress cannot by any definition it may adopt conclude the matter, since it cannot by legislation alter the Constitution.”⁴⁵ The Court recognized that “[t]he fundamental relation of ‘capital’ to ‘income’ has been much discussed by economists, the former being likened to the tree or the land, the latter to the fruit or the crop.”⁴⁶ Nevertheless, the *Eisner* Court stated that we need a “clear definition of the term ‘income’ as used in common speech.”⁴⁷ Because the AMT requires a complex set of rules to determine the AMTI, the concept of income for the AMT fails this definition.

After examining commonly used dictionaries, the Court in *Eisner* relied on the succinct definition from prior cases which held that income is defined “as the gain derived from capital, from labor, or from both combined.”⁴⁸ The Court then noted that this definition indicates the characteristic and distinguishing attribute of income that is essential for a correct application of law. Specifically, the Court emphasized that for there to be income, there must be “a gain, profit, something of exchangeable value *proceeding from* the property, *severed from* the capital, however invested or employed and *coming*, being *derived* – that is, *received* or *drawn by* the recipient (the taxpayer) for his *separate* use, benefit and disposal *that* is income derived from property. Nothing else answers this description.”⁴⁹ In the case of the AMT, the concept of income is entirely void. The AMT simply changes the various deductions and exclusions and calls the result “income.” Nothing in the manipulation of numbers to calculate the AMT involves a gain derived from property as envisioned by the Supreme Court in *Eisner*.

In *Eisner*, the Court also rejected a broad interpretation of income as expressed in *Tax Commissioner v. Putnam*.⁵⁰ In *Putnam*, the court stated that income “must be interpreted as including every item which by any reasonable understanding can fairly be regarded as income.”⁵¹ Since the AMT takes a broad approach to income by including many items of deductions and exclusions, the AMT more closely parallels the concept of income as expressed in *Putnam* which was emphatically rejected by the Supreme Court in *Eisner*.

⁴⁴ 252 U.S. 189 (1920).

⁴⁵ *Id.* at 206.

⁴⁶ *Id.*

⁴⁷ *Id.* at 206-7.

⁴⁸ *Id.* at 207.

⁴⁹ *Id.*

⁵⁰ *Eisner*, 252 U.S. 189, 216 (1920).

⁵¹ 227 Mass. 522, 531 (1917).

In *Commissioner v. Glenshaw Glass*,⁵² the Supreme Court clarified the meaning of income under the Sixteenth Amendment. In *Glenshaw Glass*, the petitioner, the Glenshaw Glass Company, was involved in protracted litigation with Hartford-Empire Company.⁵³ The parties entered into a settlement of all their litigation by which Hartford paid Glenshaw punitive damages for fraud and antitrust violations.⁵⁴ Glenshaw did not report this part of the settlement as income for tax purposes.⁵⁵ The Commissioner assessed a deficiency claiming the entire amount less legal fees was taxable.⁵⁶ At the time of the *Glenshaw Glass* decision, the definition of income included,

gains, profits and income derived from salaries, wages, or compensation for personal service of whatever kind and whatever paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever . . .⁵⁷

While the Court had previously stated that this language was employed by Congress to exert in this field “the full measure of its taxing power,”⁵⁸ the Court narrowed its interpretation of income by stating that the catchall phrase “gains or profits and income derived from any source whatever” adds nothing to the meaning of ‘gross income.’⁵⁹ In particular, the Court reaffirmed the concept of income from *Eisner v. Macomber*, which characterized income as the gain derived from capital, from labor, or from both combined.⁶⁰

By applying the *Eisner* and *Glenshaw Glass* cases, it becomes apparent that the AMT merely modifies deductions and exclusions from those used for calculating the regular tax. In particular, the AMTI is not income according to the interpretation of the term “income” by the

⁵² 348 U.S. 426 (1955).

⁵³ *Id.* at 427.

⁵⁴ *Id.* at 428.

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.* (citing 53 Stat. 9, 53 Stat. 574, 26 U.S.C. § 22 (a), 26 U.S.C.A. § 22 (a)).

⁵⁸ *Helvering v. Clifford*, 309 U.S. 331, 334 (1940); *Helvering v. Midland Mutual Life Ins. Co.*, 300 U.S. 216, 223 (1937); *Douglas v. Willcotts*, 296 U.S. 1, 9 (1935); *Irwin v. Gavit*, 268 U.S. 161, 166 (1925).

⁵⁹ *Glenshaw Glass*, 348 U.S. 426, 430 (1955).

⁶⁰ This phrase comes from *Stratton's Independence, Ltd. v. Howbert*, 231 U.S. 399 (1913) and *Doyle v. Mitchell Bros. Co.*, 247 U.S. 179 (1918). The definition used by the Court was intended to draw a distinction between a return on capital and ‘a mere conversion of capital assets.’

Supreme Court. The AMTI does not represent gains derived from property; it is simply a manipulation of numbers. Consequently, a different approach is needed to equitably tax corporate income. Rather than using the AMT to tax various items that are not taxed by the regular income tax, the federal government should use a value added tax.

V. INEQUITY OF THE AMT

While the AMT was implemented to require entities with economic income to pay their fair share of the tax burden, the AMT lacks both vertical and horizontal equity. Vertical equity means that parties with a greater ability to pay should pay more tax.⁶¹ Horizontal equity means that parties with an equal ability to pay should pay the same tax.⁶²

The AMT lacks vertical equity because of its use of one tax rate. Since the AMT uses a flat rate that is less than the rate for regular tax, the tax is not progressive.⁶³ At best, it makes the tax system less regressive, but it is not truly progressive.⁶⁴ In fact, a study by Professor Cooper has shown that the AMT liability on \$100,000 produced an effective rate no greater than twelve percent.⁶⁵ Moreover, Professors Granetz, Coven, and Garlock have demonstrated that the AMT has not been successful in eliminating the rate reduction caused by the capital gain exclusion.⁶⁶

Horizontal equity occurs when parties with the same economic income pay the same amount of tax. As previously stated, in recent years, 133 of the 250 largest U.S. corporations paid tax at less than half of the regular corporate rate,⁶⁷ and forty-one companies reported \$25 billion in pretax profits but paid less than zero in federal taxes.⁶⁸ Accordingly, the AMT is not achieving horizontal equity.

⁶¹ The vertical equity concept is similar to equal treatment, but proceeds on the premise that different amounts of tax should be paid by taxpayers with different ability if they are to have equal tax burdens. RICHARD A. MUSGRAVE & PEGGY B. MUSGRAVE, *PUBLIC FINANCE IN THEORY AND PRACTICE* 232 (4th ed. (1984)).

⁶² Horizontal equity basically applies the principle of equity under the law. *Id.*

⁶³ See Moran, *supra* note 7, at 223.

⁶⁴ See Davenport & Goldman, *The Minimum Tax For Tax Preferences and the Interest Deduction Limitation Under the Tax Reform Act of 1969*, 16 WAYNE L. REV. 1223 (1970).

⁶⁵ See George Cooper, *The Taming of the Shrewd: Identifying and Controlling Income Tax Avoidance*, 85 COLUM. L. REV. 657 (1985).

⁶⁶ M. GRAETZ, *FEDERAL INCOME TAXATION PRINCIPLES AND POLICIES* (Successor ed. 1985); G.E. Coven, *Alternative Minimum Tax Proving Again That Two Wrongs Do Not Make a Right*, 68 CALIF. L. REV. 1093 (1980); Garlock, *An Analysis of the Alternative Minimum Tax and the Planning Opportunities It Offers*, 52 J. TAX'N 206 (1980).

⁶⁷ HOFFMAN, *supra* note 2, at 6-3.

⁶⁸ *Id.*

VI. PROPOSAL

The AMT should be replaced with a value added tax (VAT). A VAT should not be used as an additional tax, but rather should be the minimum tax imposed on the income of corporations. Like the AMT today, under this proposal the VAT would not be applicable if the regular tax of a corporation exceeded the VAT. Since it would tax any increase in the value added by a corporation as a result of its operations, it could be set at a lower rate than the AMT.

A VAT is a tax imposed on all levels of production on the differences between a firm's sales and their purchases from all other firms.⁶⁹ A VAT differs from a sales tax because a sales tax taxes only net sales (gross sales less returns and allowances). While there are several versions of the VAT,⁷⁰ the most straight forward are: the credit-invoice method and the subtraction method.

Under the credit-invoice method, a company includes the VAT on all sales invoices.⁷¹ Then, there are three steps used to calculate the amount of the VAT due the government. First, the firm would compute its gross tax by totaling the VAT from all sales invoices.⁷² Second, the firm must total the VAT paid by its suppliers for its purchases.⁷³ Third, the total VAT paid for its purchases would be subtracted from the total VAT charged on its sales.⁷⁴

Under the subtraction VAT, the seller does not include the cost of the VAT in its sales, but rather calculates the VAT after the accounting period. Under this method, a firm would calculate its value added by subtracting its cost of taxed inputs from its sales.⁷⁵ Then, the firm would determine its VAT liability by multiplying its value added by the VAT rate.⁷⁶

One of the most important factors that should be used to evaluate the imposition of any tax is the fairness of the tax in light of the ability to pay. If income is the measure of the ability to pay, then the greater the income of the taxpayer, the greater the ability to pay and the greater

⁶⁹ See James M. Bickley, Congressional Research Service, CRS Report for Congress, *Value-Added Tax: Should It Be Calculated By the Credit-Invoice or Subtraction Method*, June 15, 1992, p. 1.

⁷⁰ For a discussion of the credit-invoice VAT, the credit-subtraction VAT without invoices, the sales-substitution VAT, and the addition method VAT see Alan Schenk, *The Plethora of Consumption Tax Proposals: Putting the Value-Added Tax, Flat Tax, Retail Sales Tax, and USA Tax Into Perspective*, 33 SAN DIEGO L. REV. 1281 (1996).

⁷¹ See Bickley, *supra* note 69.

⁷² See MUSGRAVE, *supra* note 61, at 444.

⁷³ *Id.*

⁷⁴ See Bickley, *supra* note 69.

⁷⁵ *Id.* at 2.

⁷⁶ *Id.*

should be the tax. If consumption is the measure of the ability to pay, then taxpayers with equal levels of consumption would be taxed equally.⁷⁷

By imposing a uniform rate on the entire tax base, the VAT is economically neutral in that it does not distort choices to make or produce income. Accordingly, shifting to a more capital-intensive means of production or reallocating resources across product markets does not affect the tax burden if a VAT is used.⁷⁸ A VAT is neutral with respect to operational choices because producers can shift to more profitable methods of production without affecting their tax expense.⁷⁹ Consequently, unlike income tax, there is no penalty for efficiency and no subsidy for waste with a VAT.⁸⁰

If the measure of the ability to pay is consumption, a single-rate VAT with a broad base would be approximately proportional to consumption regardless of the time period.⁸¹ That is, as the level of consumption increases, the percentage of consumption paid in VAT would be approximately constant.⁸² Thus, if consumption is used as the measure of the ability to pay rather than income, a VAT has vertical equity.

In the field of public finance, neutrality means that a particular tax does not affect economic decisions.⁸³ Thus, the greater the neutrality, the better its economic consequences. A single rate VAT occurring within a given jurisdiction that is imposed on all consumption expenditures would be economically neutral.⁸⁴ A VAT, however, cannot be levied on all goods; consequently, a VAT would raise the prices of those goods that are taxed relative to those goods that are not taxed.⁸⁵ While there would be some distortion relative to an untaxed society using a VAT, this is minor in comparison to the AMT because the AMT taxes many items that would not otherwise be taxed.

Another advantage of a VAT is that it promotes administrative efficiency. Such efficiency can be achieved by having a VAT that is broad

⁷⁷ See Alan Schenk, *Value Added Tax: Does This Consumption Tax Have A Place In the Federal Tax System?*, 7 VA. TAX REVIEW 207, 269 (1987).

⁷⁸ MURRAY L. WEIDENBAUM, DAVID G. RABOY, AND ERNST S. CHRISTIAN, JR., *THE VALUE-ADDED TAX: ORTHODOXY AND NEW THINKING* 8 (1989).

⁷⁹ Robert W. McGee, *Principles of Taxation for Emerging Economies: Lessons From the U.S. Experience*, 12 DICK J. INT'L L. 29, 71 (1993).

⁸⁰ See WEIDENBAUM, *supra* note 78.

⁸¹ See Bickley, *supra* note 69, at 16.

⁸² See *id.*

⁸³ See *id.*; Michael W. McConnell & Richard A. Posner, *An Economic Approach to Issues of Religious Freedom*, 56 U. CHI. L. REV. 1 (1989).

⁸⁴ See Charles E. McClure, *Taxation of Electronic Commerce: Economic Objectives, Technological Constraints and Tax Laws*, 52 TAX L. REV. 269, 376 (1997).

⁸⁵ See Bickley, *supra* note 69, at 1.

based, with a single rate, few exceptions, and a generous small-business exemption.⁸⁶ By having a broad base, the government can raise tremendous revenue with a VAT that has a very low rate of tax.⁸⁷ Furthermore, a VAT facilitates tax audits because of the ability to cross-check returns filed by various businesses in the same industry.⁸⁸ With few exceptions, the enforcement costs would be low because there would not be aspects of the tax to dispute.

A final advantage to a VAT is that it can be designed in such a way that there would be efficiency in compliance which would complement the efficiency in administration. Since a VAT is simpler to apply than the AMT, the VAT results in less cost to collect and maintain the information necessary to comply with the law. The reporting of a VAT tax would use the existing cost accounting information, rather than the complex procedures and multiple sets of books required for the AMT. As a result, not only would the compliance costs be reduced, but there would also be a reduction in enforcement costs because information would be easy to audit.

VII. CONCLUSION

While the tax system is a necessary means of generating revenue for the government, it should treat taxpayers equitably. The purpose of the AMT is to achieve equity in that taxpayers with substantial economic income pay “their fair share of tax.” This construct has failed because the AMT does not impose tax on many items that are deductible or excludable.

While the Sixteenth Amendment provides that “Congress shall have the power to lay and collect taxes on incomes,” it does not define income. In interpreting the Sixteenth Amendment, the Supreme Court has held that income should be interpreted to have a meaning consistent with common speech rather than based on an intricate procedure that results in an amount labeled “income,” which is devoid of theoretical foundation. The AMT involves a complex set of procedures to tax items that would otherwise escape taxation and does not use a meaning of income as used in common speech.

Because the AMT lacks equity, is unduly complex, and is based on a calculation of income that is unconstitutional, the AMT should be replaced with a VAT. Unlike the AMT which involves intricate calcula-

⁸⁶ See Sijbren Cnossen, *Administrative and Compliance Costs of the VAT: A Review of the Evidence*, TAX NOTES 1609 (June 20, 1994).

⁸⁷ A VAT of 3.5% can generate as much revenue for the government as a corporate tax rate of 34%. McGee, *supra* note 79, at 71-72.

⁸⁸ See Robert H. Gleason, *Reevaluating the California Sales Tax: Exemptions, Equity, Effectiveness, and the Need for a Broader Base*, 33 SAN DIEGO L. REV. 1681, 1772 (1996).

tions using items that would have been deductions and exclusions in calculating the regular income tax, a VAT is a simple tax imposed on all levels of production on the differences between a firm's sales and its purchases from all other firms. Furthermore, a VAT would be an unavoidable tax that would be economically neutral. It would remove tax considerations from economic decisions and therefore would be beneficial to society. Finally, if a single rate VAT without exclusions were imposed, there would be efficiency in terms of compliance and enforcement.

DIFFERENTIATING BETWEEN RESIDENT AND NONRESIDENT HUNTERS: A VIOLATION OF EQUAL PROTECTION, DISCRIMINATION AGAINST INTERSTATE COMMERCE, OR RATIONALLY BASED?

by RICHARD J. HUNTER, JR.*

I. INTRODUCTION

The conservation movement began in the United States around the turn of the twentieth century.¹ One of its basic tenets was that wildlife belonged to all of the citizens of the United States—not just those who owned the land.² At the same time, “big-game” hunting steadily gained in popularity in the second half of the twentieth century, as the number

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¹ For a comprehensive view of the history of the conservation movement in the United States, see Library of Congress, *The Evolution of the Conservation Movement*, at <http://www.memory.loc.gov/ammem/amrvhtml/conshome.html> (last visited Jan. 24, 2005).

² See *Baldwin*, 436 U.S. at 392. Chief Justice Burger noted: “The doctrine that a State ‘owns’ the wildlife within its borders as trustee for its citizens ... is admittedly a legal anachronism of sorts. A State does not ‘own’ wild birds and animals in the same way that it may own other natural resources such as land, oil, and timber. But, as noted in the Court’s opinion, and contrary to the implications of the dissent, the doctrine is not completely obsolete. It manifests the State’s special interest in regulating and preserving wildlife for the benefit of its citizens.” *Id.* (Burger, J., concurring) (citing *Geer v. Connecticut*, 161 U.S. 519 (1896)).

of hunters tripled between 1975 and 1995. In this context, state conservation commissioners were called upon to balance delicately the rights of hunters (both resident and nonresidents) with obligations of stewardship for the future. As a result, quotas were effectively established by local political authorities in order to deal with growing demand and to engage in wildlife management by regulating the harvest of selected animals through controlling the number of hunters—a strategy that in most cases shorted and restricted the opportunities of nonresidents by arriving at formulas on how and to whom licenses should be allocated.

License fees remain as the largest source of revenues to fund conservation and other important wildlife management projects.³ *Outdoor Life*, a staple of the hunting and fishing communities, reports that a combination of “license fees and excise taxes on hunting and fishing equipment provide three quarters of state conservation budgets.”⁴

Nonresidents have consistently argued that any discrimination between residents and nonresidents in awarding licenses violated the privileges and immunities clause of the United States Constitution, which guarantees every citizen, regardless of residency, equal privileges from state to state. That argument was rejected by the Supreme Court in *Baldwin v. Montana Fish and Game Commission*,⁵ a case decided by the United States Supreme Court in 1978.

II. *BALDWIN*: A QUESTION OF PRIVILEGES AND IMMUNITIES?

Lester Baldwin was a resident of the State of Montana.⁶ Baldwin was an outfitter⁷ who held a state license as a hunting guide. The majority

³ See Resident v. Nonresident, available at <http://outdoorlife.com/outdoor/hunting/biggame/article/0,19912,100852000.html> (Dec./Jan. 2005).

⁴ John J. Jackson III, *Nonresident Discrimination Must Be Stopped*, *OUTDOOR LIFE*, Dec./Jan. 2005, at 71. See also Matt Young, *Sportsmen and Conservation*, available at http://southern.ducks.org/article_sportsmen-conservation.php (last visited Jan. 24, 2005) (noting that according to the U.S. Fish and Wildlife Service (USFWS), sportsmen provided \$1.8 billion in 2001 through license fees and taxes to help conservation efforts nationwide and stating that hunters contributed another \$200 million to conservation efforts and other sportsmen's groups and spent \$4 billion to lease, manage, and own land for hunting).

⁵ 436 U.S. 371 (1978).

⁶ Montana is the fourth largest State, with an area of 147,000 square miles, after Alaska, Texas, and California. However, its population is relatively small. The Court in *Baldwin* noted that Montana “is the State most frequently visited by nonresident hunters.” Michigan Natural Resources, *All Outdoors*, Sept.-Oct. 1975, at 27-28.

⁷ An outfitter is an individual who equips and guides hunting parties. The outfitter is often regarded as a surrogate game warden, serving to bolster the State's official warden force of seventy game wardens whose individual districts cover approximately 2,100 square miles. Montana has adopted an “equal responsibility” statute that makes outfitters and guides equally responsible for unreported game-law violations committed

of Baldwin's business came from nonresidents who would come to Montana to hunt elk and other "big game." Since Montana imposes a durational requirement of six months for eligibility in order to receive a resident hunting or fishing license,⁸ Baldwin's clients were subject to rules designed for the treatment of nonresidents. In 1975, Baldwin and a group of four clients from Minnesota became "disturbed by the differences in the kinds of Montana elk-hunting licenses available to nonresidents, as contrasted with those available to residence of the State."⁹ In addition, the group complained about the differences in the fees the nonresident and the resident were required to pay for their respective licenses. The plaintiffs filed suit for a declaratory judgment, injunctive relief, and reimbursement, in part, of fees that had already been paid. The defendants were the Fish and Game Commission of the State of Montana, its Director, and its five commissioners. The plaintiffs argued that the Montana elk-hunting licensing regime, as it was applied to nonresidents, violated the Constitution's Privileges and Immunities Clause¹⁰ and the Equal Protection Clause of the Fourteenth Amendment.¹¹

The elk's preservation is uniquely dependent on conservation. Montana had actively engaged in a successful elk management program. As a result, Montana had not been required to limit the overall number of hunters by random drawings or lotteries, as had other states. Elk were not hunted for commercial purposes in Montana. Nonresident hunters generally sought elk for the unique trophy value of its distinctive set of antlers, while resident hunters were more often interested in the meat. About seventy five percent of the elk taken in Montana were killed on federal land.¹² For the 1975 hunting season, a Montana resident was able to purchase a license solely for hunting elk for \$4. The nonresident, by contrast, was required to purchase a "combination

by persons in their hunting parties. See MONT. REV. CODE ANN. § 26-906 (Supp. 1977).

⁸ See R.C.M. 1947 § 26-202.3 (2) which provides: "Any person who has been a resident of the state of Montana, as defined in section 80-303, for a period of six (6) months immediately prior to making application for said license shall be eligible to receive a resident hunting or fishing license."

⁹ *Baldwin*, 436 U.S. at 372.

¹⁰ U.S. CONT. art. IV, § 2. "The Citizens of each State shall be entitled to all the Privileges and Immunities of Citizens in the several States."

¹¹ *Id.* at art. XIV. "All persons born or naturalized in the United States and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any laws which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the law."

¹² *Montana Outfitters Action Group v. Fish & Game Comm'n*, 417 F. Supp. 1005, 1007 (Mont. 1976).

license” that permitted the nonresident hunter to take one elk and two deer. The cost of this license was \$151. For 1976, the Montana resident could purchase a license solely for elk for \$9. In order to hunt elk, the nonresident was required once again to purchase a “combination license” at a cost of \$225, entitling the nonresident to take one elk, one deer, one black bear, game birds, and to fish with hook and line. The Montana resident was not required to buy any combination of licenses, but if the resident chose to do so, the cost was \$30.¹³ Thus, the nonresident paid seven and a half times as much as the resident—and if the nonresident wanted only to hunt elk, the nonresident paid twenty five times as much as the resident.¹⁴

A three-judge district court was convened, and by a divided vote, the court entered judgment denying all relief to the plaintiffs.¹⁵ The district court concluded that “where the opportunity to enjoy a recreational activity is created or supported by the state, where there is no nexus between the activity and any fundamental right, and where by its very nature the activity can be enjoyed by only a portion of those who would enjoy it, a state may prefer its residents over the residents of other states, or condition the enjoyment of the nonresident upon such terms as it sees fit.”¹⁶ Finding no such nexus, or the existence of no such fundamental right, the district court concluded that it would not be required to scrutinize the discrimination “strictly”;¹⁷ rather, it would

¹³ MON. REV. CODE ANN. §§ 26-202.1 (4), (12), 26-230 (Supp. 1977).

¹⁴ The Montana method of requiring a “combination license” is considered unique. *See* Tr. of Oral Arg. 8. *See also* Reply Brief for Appellant (reported at 436 U.S. at 374 n.5).

¹⁵ *Montana Outfitters Action Group*, 417 F. Supp. at 1010.

¹⁶ *Id.* The district court concluded “There is simply no nexus between the right to hunt for sport and the right to speak, the right to vote, the right to travel, the right to pursue a calling.” *Id.* at 1009. In general, the United States Supreme Court has held that in order to be deemed a “fundamental right”—and thereby become subject to the strict scrutiny standard—the right must be implicitly guaranteed by the Constitution. *See, e.g.*, *San Antonio School Dist. v. Rodriguez*, 411 U.S. 1 (1973) (upholding the Texas system of financing its public schools through the local property tax and rejecting the treatment of wealth as a suspect classification). By contrast, concerning the right to vote, see *Harper v. Virginia State Bd. of Educ.*, 383 U.S. 663 (1966) (striking down Virginia’s \$1.50 tax on voters in state elections on equal protection grounds, applying strict scrutiny analysis).

¹⁷ *Montana Outfitters Action Group*, 417 F. Supp. at 1009-10. The Supreme Court typically employs a different, perhaps more subtle, approach in fundamental rights due process cases. That approach involves five steps or inquiries:

- Is the interest in question one that qualifies as a protected liberty under the Due Process Clause?
- Is the protected liberty one that is deemed as fundamental?
- Does the challenged law interfere with the fundamental liberty in a “serious enough way” to impinge on or unduly burden that liberty, thereby triggering strict scrutiny analysis?
- If a fundamental liberty has been impinged on or unduly burdened, does the law substantially further a compelling government [state] interest?, and

only be necessary to determine whether the system of regulation bears some rational relationship to a legitimate state purpose.¹⁸ The United

- Has the government chosen the least burdensome means of achieving its compelling interest?

See ALLAN IDES & CHRISTOPHER N. MAY, *CONSTITUTIONAL LAW: INDIVIDUAL RIGHTS* 75 (2001).

¹⁸ See generally Mark Strasser, *Interpretations of Loving in Lawrence, Baker, and Goodridge: On Equal Protection and the Tiers of Scrutiny*, 13 *WIDENER L.J.* 859 (2004) (discussing equal protection analysis involving any of three tiers of review—strict scrutiny for classifications based on race or national origin, *heightened scrutiny* for gender or illegitimacy, or rational basis for other classifications). When the statutory or administrative classification is not based on “suspect” [generally, race, national origin, or alienage] or “quasi-suspect” [generally, gender or legitimacy] criteria, a court will review the classification under the traditional equal protection test. Thus, the classification is valid and will be upheld if it is rationally related to a proper or constitutionally permissible or legitimate state interest. Under the rational basis test, a classification is presumed valid and will be upheld unless the person challenging it proves that it is “invidious,” “wholly arbitrary,” or “capricious.” See, e.g., *Lindsley v. Natural Carbonic Gas Co.*, 220 U.S. 61 (1911); *McGowan v. Maryland*, 366 U.S. 420 (1961); *United States Railroad Retirement Board v. Fritz*, 449 U.S. 166 (1980). A classification subject to the rational basis review will come before a court “bearing a strong presumption of validity,” and the party challenging such a regulation must “negate ever conceivable basis which might support it....” See *FCC v. Beach Communications, Inc.*, 508 U.S. 307, 314-15 (1993). The rationale may rest on “rational speculation unsupported by evidence or empirical data.” *Id.* at 315. The classification need not fit its end “with mathematical nicety.” *Dandridge v. Williams*, 397 U.S. 471, 485 (1970). It can even be “overinclusive, underinclusive, illogical, and unscientific.” *Metropolis Theatre Co. v. Lee Optical, Inc.*, 228 U.S. 61, 69-70 (1913).

Intentional discrimination against members of a “quasi-suspect class” violates the equal protection clause unless it is “substantially related to an important government objective.” See *Craig v. Boren*, 429 U.S. 190 (1976) (voiding an Oklahoma law permitting females at age eighteen to purchase and use “3.2% beer,” but forbidding males from doing so until age twenty-one, and crafting the intermediate scrutiny standard of review); *United States v. Virginia*, 518 U.S. 515 (1996) (noting that the “burden of justification is demanding,” requiring the defender of the regulation to convincingly demonstrate that the classification serves “important governmental objectives” that do not rely on archaic or “overbroad generalizations about the different talents, capacities, or preferences of males and females”; these objectives are “genuine” in the sense that they “describe actual state purposes, not rationalizations for actions in fact differently grounded”; and, the discriminatory means employed are “substantially related” to the achievement of these objectives). *Id.* at 531-34. See also *Mississippi Univ. for Women v. Hogan*, 458 U.S. 718, 731 (1982) (stating that discrimination based on gender is unconstitutional unless it is shown to be supported by an “exceedingly persuasive justification”). Concerning discrimination based on gender, see *Reed v. Reed*, 404 U.S. 71 (1971) (applying *minimal scrutiny*, but invalidating as *irrational* under the Equal Protection Clause, a classification based on sex mandating that men should be preferred to women as court-appointed administrators of an intestate-decedent’s estate). Concerning illegitimacy and related classifications, see *Matthews v. Lucas*, 427 U.S. 495 (1976); *Clark v. Jeter*, 486 U.S. 456, 461 (1988) (requiring that the “statutory classification... be substantially related to an important governmental objective”).

Governmental actions that intentionally discriminate against racial or ethnic

States Supreme Court granted certiorari and agreed to hear the case on direct appeal.¹⁹

A. *The Supreme Court Decides the Issue*

The Supreme Court cited three general precedential comments concerning the application of the Privileges and Immunities Clause of Article IV, section 2 of the United States Constitution, acknowledging that in contrast to many important constitutional provisions, “That Clause is not one the contours of which have been precisely shaped by the process of wear and tear of constant litigation and interpretation over that the years since 1789.”²⁰

minorities are subject to strict scrutiny. Under strict scrutiny, a classification will be held to violate equal protection unless it is found to be “necessary to promote a compelling state interest.” See *Bernal v. Fainter*, 467 U.S. 216, 227-28 (1984) (holding that the defender of a regulation must “advance a factual showing” that the classification addresses “a real, as opposed to a merely speculative, problem to the State”). Concerning the issue of alienage, see *Sugarman v. Dougall*, 413 U.S. 634 (1977) (striking down a New York statute barring aliens from employment in its “competitive classified civil service”). A classification is valid under this standard when it is narrowly tailored so that no alternative, less burdensome means is available to accomplish the state interest. See *Wygant v. Jackson Bd. of Educ.*, 476 U.S. 267, 280 n.6 (1986) (holding that the phrase narrowly tailored means that “the classification at issue must ‘fit’ the alleged compelling interest ‘with greater precision than any alternative means’”). See also *Yick Wo v. Hopkins*, 118 U.S. 356 (1886) (relating to race and national origin, invalidating a San Francisco ordinance because the city had no justification for its invidiously discriminatory application of a facially neutral law, and holding that the Fourteenth Amendment requires equality of treatment “without regard to any differences of race, of color, or of nationality”). *Id.* at 369. In *United States v. Carolene Products Co.*, perhaps as a precursor to strict scrutiny analysis, Justice Stone identified a number of circumstances where “more exacting judicial scrutiny” might be warranted. One of these might involve legislation “directed at particular religious... or national... or racial minorities.” 304 U.S. 144, 152-53 n.4 (1938).

At the district court level in *Baldwin*, the dissenting judge took the position that invidious discrimination was not to be justified by “popular disapproval of equal treatment.” 417 F. Supp. at 1012 (Browning, J., dissenting). Judge Browning offered a cautionary note and stated: “The rule applied by the majority is impossible to limit. It would immunize even the most arbitrary discrimination from constitutional attack whenever it could be contended reasonably that the discrimination was necessary to obtain political support for the state activity.” *Id.*

¹⁹ 429 U.S. 1089 (1977).

²⁰ *Baldwin*, 436 U.S. at 379. Early in the history of the United States, Justice Bushrod Washington (the nephew of President George Washington) concluded that the privileges and immunities protected are those “which are in their very nature, fundamental.” See *Corfield v. Coryell*, 6 Fed. Cas. 546 (No. 3,230) (C.C.E.D. Pa. 1823 (on circuit) (arguing that “fundamental rights” were rooted in principles of natural law—human rights that transcend governmental institutions). See also LAWRENCE TRIBE, *AMERICAN CONSTITUTIONAL LAW* 405-06 (1978) for a discussion of the 19th-century “natural rights” doctrine that underpins the *Corfield* decision and of the broad implications of Justice Washington’s interpretation of the privileges and immunities clause. In contrast,

In *Paul v. Virginia*,²¹ Justice Field had noted: “But the privileges and immunities secured to citizens of each State..., are the privileges and immunities which are common to the citizens in the latter States under their constitution and laws by virtue of their being citizens. Special privileges enjoyed by citizens in their own States are not secured in other States by this provision.”²²

Seventy years later, Justice Roberts, writing for himself and Justice Hugo Black in *Hague v. CIO*,²³ noted: “... it has come to be the settled view that Article IV, § 2, does not import that a citizen of one State carries with him into another fundamental privileges and immunities which come to him necessarily by the mere fact of his citizenship in the State first mentioned, but on the contrary, that in any State every citizen of any other State is to have the same privileges and immunities which the citizens of that State enjoy. This section, in effect, prevents a State from discriminating against citizens of other States in favor of its own.”²⁴

Finally, in *Austin v. New Hampshire*,²⁵ Justice Thurgood Marshall made reference to the Clause’s “norm of comity” and asserted: “The Clause thus establishes a norm of comity without specifying the particular subjects as to which citizens of one State coming within the jurisdiction of another are guaranteed equality of treatment. The origins of the Clause do reveal, however, the concerns of central import to the Framers.”²⁶

In applying the principles enunciated in *Paul, Hague, and Austin*, the Supreme Court in *Baldwin* noted that the Privileges and Immunities Clause of Article IV, section 2, has been interpreted to prevent a State from imposing unreasonable burdens on citizens of other States in pursuing “common callings” within a State;²⁷ in the ownership and

Professors Ides and May contend that “one purpose of the Fourteenth Amendment’s Privileges or Immunities Clause was to prevent states from denying U.S. citizens, as defined by the first sentence of §1, the equal exercise of those fundamental civil rights and immunities described in the Civil Rights Act [of 1866].” See IDES & MAY, *supra* note 17, at 7.

²¹ 8 Wall. 168, 180 (1869).

²² *Id.* at 180-81.

²³ 307 U.S. 496, 511 (1939).

²⁴ *Id.* (cited in *Baldwin*, 436 U.S. at 384).

²⁵ 420 U.S. 656, 660-61 (1975).

²⁶ *Id.* (holding that the Privileges and Immunities Clause was designed to protect “all the privileges of trade and commerce”).

²⁷ *Ward v. Maryland*, 12 Wall. 418 (1871).

disposition of property within the State;²⁸ and in access to the courts of the State.²⁹

Justice Blackmun, writing for the Court, then commented that not all distinctions between residents and nonresidents are constitutionally

²⁸ *Blake v. McClung*, 172 U.S. 239 (1898).

²⁹ See *Canadian Northern R. Co. v. Eggen*, 252 U.S. 553 (1920). The Court also cited the opinion of Justice Bushrod Washington in *Corfield v. Coryell*, the first major case decided under the privileges and immunities clause. “The inquiry is, what are the privileges and immunities of citizens in the several states? We feel no hesitation in confining these expressions to those privileges and immunities which are, in their nature, fundamental; which belong, of right, to the citizens of all free governments; and which have, at times, been enjoyed by the citizens of the several states which compose the Union, from the time of their becoming free, independent, and sovereign.” *Corfield*, 6 Fed. Cas. 546 (No. 3,230) (C.C.E.D. Pa. 1823) (on circuit) (cited in *The Slaughter-House Cases*, 83 U.S. (16 Wall.) 36 (1873)). According to Justice Washington, these would include protection by the government; enjoyment of life and liberty, with the right to possess property of every kind; the right to pursue and obtain happiness and safety; the right to travel; the right to claim the benefit of the writ of habeas corpus; the right to institute court actions; the right to an exemption from higher taxes than are paid by citizens of other states; and the right to vote. *Id.* at 551-52. Thomas Foutz commented that “*Corfield* envisioned a set of federally protected fundamental rights that a citizen carried with him into any state and upon which no state could encroach.” Thomas Keasler Foutz, Note, *Constitutional Law—Privileges and Immunities Clause, Article IV, section 2—Nonresidents Are Not Guaranteed Equal Access to a State’s Recreational Resources*, 53 TUL. L. REV., 1524, 1525 (1979). See also *M.L.B. v. S.L.J.*, 519 U.S. 102 (1996) (holding that the State of Mississippi must afford a petitioner a free transcript in a civil case because the civil case involved a “fundamental right,” implicating a parent’s fundamental interest in the relationship with her children). *Id.* at 117-18.

The right to travel has likewise been termed as a “fundamental interest.” See, e.g., *Shapiro v. Thompson*, 394 U.S. 618 (1969) (applying strict scrutiny in invalidating durational residency requirements of Pennsylvania, Connecticut, and the District of Columbia, denying welfare assistance to persons who had not lived in the state for at least one year). See also *Saenz v. Roe*, 526 U.S. 618 (1999) (invalidating a California welfare statute under Privileges or Immunities Clause). Similarly, in *Edwards v. California*, the Court, relying on the commerce clause, invalidated a state statute prohibiting any person “from bringing into the State any indigent person who is not a resident of the State.” 314 U.S. 160 (1941). Four judges concurred in the result on the ground that the statute violated the privileges or immunities clause of the Fourteenth Amendment. See also GEOFFREY R. STONE, LOUIS M. SEIDMAN, CASS R. SUNSTEIN & MARK V. TUSHNET, *CONSTITUTIONAL LAW* 786-87 (4th ed. 2001).

For an interesting discussion of the “fundamental rights of parents in the care, custody, and management of their biological children,” see Maryana Zubok, *Termination of Parental Rights*, 5 GEO. J. GENDER & L. 587 (2004) (discussing *In re: O.R.*, in which an Illinois appellate court upheld the constitutionality of a statutory provision on both equal protection and due process grounds, holding that the statute survived strict scrutiny analysis because the state had a *compelling interest* in protecting children from abuse, both before and after it occurred, and that the Illinois statute was *narrowly tailored* to meet the goal of protecting children from harm). See *In re: O.R.*, 767 N.E.2d 872, 876-79 (Ill. App. Ct. 2002) (construing 750 Ill. Comp. Stat. Ann. 50/1 (D)(t), West, WESTLAW through 2003 Reg. Sess.).

impermissible. “Some distinctions between residents and nonresidents merely reflect that this is a Nation composed of individual States, and are permitted; other distinctions are prohibited because they hinder the formation, the purpose, or the development of a single Union of those States. Only with respect to those “privileges” and “immunities” bearing upon the vitality of the Nation as a single entity must the State treat all citizens, resident and nonresident, equally.”³⁰ Would the Supreme Court decide to include the distinctions between residents and nonresidents with respect to access to recreational big-game (elk) hunting among the privileges and immunities of citizens that can not be abridged by any State?

Justice Blackmun attempted to answer this question by creating a context. He noted, “In more recent years, the Court has recognized that the States’ interest in regulating and controlling those things they claim to “own,” including wildlife, is by no means absolute.”³¹ Justice Blackmun outlines three specific circumstances where States would not be able to “compel the confinement of the benefits of their resources...”;³² that is, circumstances involving “such basic and essential activities, interference with which would frustrate the purposes of the formation of the Union...”.³³

- Where such “hoarding and confinement” or regulating and controlling those things they claim to “own”—including wildlife—impedes interstate commerce;³⁴
- Where the State’s control over its resources precludes the proper exercise of federal power;³⁵ and
- Where the State’s interests in its wildlife and other natural resources interfere with a nonresident’s right to pursue a livelihood in a State other than his own.³⁶

³⁰ *Baldwin*, 436 U.S. at 383.

³¹ *Id.* at 385.

³² *Id.* at 387.

³³ *Id.*

³⁴ See *Foster-Fountain Packing Co. v. Haydel*, 278 U.S. 1 (1928); *Pennsylvania v. West Virginia*, 262 U.S. 553 (1923); *West v. Kansas Natural Gas Co.*, 221 U.S. 229 (1911).

³⁵ See *Douglas v. Seacoast Products, Inc.*, 431 U.S. 265 (1977); *Kleppe v. New Mexico*, 426 U.S. 529 (1976); *Missouri v. Holland*, 252 U.S. 416 (1920).

³⁶ See *Toomer v. Witsell*, 334 U.S. 385 (1948) (striking down a South Carolina statute requiring nonresidents to pay a license fee of \$2,500 for each commercial shrimp boat, where residents were required to pay only \$25). In *Toomer*, the Supreme Court replaced the traditional interpretation of the Privileges and Immunities Clause with the “substantial reason” test. This test may be seen as a “forerunner of the rational basis test used in equal protection cases.” Thomas Keasler Foutz, *supra* note 29, at 1526. This formulation prohibits discrimination against nonresidents “where there is no substantial reason for the discrimination beyond the mere fact that they are citizens of other states.” *Toomer*, 334 U.S. at 396. See also *Takahashi v. Fish & Game Comm’n*, 334 U.S. 410

In analyzing the import of these cases in light of the principles enunciated above, Justice Blackmun effectively answers his own question: The nonresident appellants' interest in sharing this limited resource on more equal terms with residents of Montana does not fall within the purview of the Privileges and Immunities Clause. Because elk hunting by nonresidents in Montana is "recreation and a sport," it is not a means to the nonresident's livelihood. Justice Blackmun concludes, "Whatever rights may be "fundamental" under the Privileges and Immunity Clause, we are persuaded, and hold, that elk hunting by nonresidents in Montana is not one of them."³⁷

III. IS THERE AN "EQUAL PROTECTION" PROBLEM?

Having survived the first challenge, would the Montana regulations which drew distinctions between residents and nonresidents in the allocation of access to recreational hunting be able to withstand an attack on equal protection grounds? Montana argued forcefully that it has made substantial "economic sacrifices" in order to preserve the elk and other wildlife within its State, and that, as a result, it should be able to charge nonresidents more than it charges its residents who "already have contributed [through their taxes] to the programs that make elk hunting possible."³⁸

Since the parties themselves had conceded that a differential in the cost between residents and nonresidents is not "in itself invidious or unconstitutional,"³⁹ the Court would apply the test of *rationality* to the Montana regulatory scheme. Having found that the nonresident regulations did not involve the "vitality of the nation," "a statutory classification impinging upon no fundamental interest... need not be drawn so as to fit with precision the legitimate purposes animating it.... That [Montana] might have furthered its underlying purpose more artfully, more directly, or more completely, does not warrant a

(1948); *Mullaney v. Anderson*, 342 U.S. 415 (1952) (invalidating a \$50 license fee on nonresident fishermen where there was a \$5 fee on residents).

³⁷ *Baldwin*, 436 U.S. at 388. In his dissent, Justice Brennan suggests that discrimination against a nonresident should not depend upon whether or not a given right is fundamental. Rather, "a State's discrimination against nonresidents is permissible where (1) the presence or activity of nonresidents is the source or cause of the problem or effect with which the State seeks to deal, and (2) the discrimination practiced against nonresidents bears a substantial relation to the problem they present." *Id.* at 402 (Brennan, J., dissenting).

³⁸ *Id.* at 389. Included in this calculation of "economic sacrifices" are providing support for state parks; providing roads for access to hunting areas; providing fire suppression to protect the wildlife habitat; enforcing state air and water quality standards; assisting local sheriff's departments in enforcing game laws; and providing state highway patrol officers who assist wildlife officers at game-checking stations.

³⁹ *Id.* at 390.

conclusion that the method it chose is unconstitutional.”⁴⁰ The Court found that the legislative choice was an “economic means not unreasonably related to the preservation of a finite resource and a substantial regulatory interest of the State.”⁴¹

In conclusion, Justice Blackmun stated that there was no duty on the part of the State of Montana to have its licensing structure parallel or be identical for both residents and nonresidents, or to justify “to the penny” any cost differential it imposes in a “purely recreational, noncommercial, nonliveliness setting. Rationality is sufficient.”⁴² In upholding Montana’s regulatory scheme, the Court concluded: “[protection] of the wild life of the State is peculiarly within the police power, and the State has great latitude in determining what means are appropriate for its protection.”⁴³

For nearly thirty years, the issue seemed closed—until the Ninth Circuit Court of Appeals reentered the argument and held that the State of Arizona’s cap on the percentage of nonresident deer and elk licenses amounted to overt discrimination against interstate commerce, placing the burden on the State of Arizona to justify its unequal and discriminatory treatment of its nonresident hunters.

IV. LICENSING AND INTERSTATE COMMERCE

*Conservation Force, Inc. v. Manning*⁴⁴ required the Ninth Circuit Court of Appeals to determine whether Arizona’s ten percent cap on nonresident hunting of bull elk throughout the entire state and of antlered deer north of the Colorado River substantially affected

⁴⁰ *Id.* (quoting *Hughes v. Alexandria Scrap Corp.*, 426 U.S. 794, 813 (1976)).

⁴¹ *Id.* However, while the Court has not used strict or intermediate scrutiny in cases involving discrimination against people from other states, “it has occasionally employed an enhanced rational basis test to review laws that discriminate against current or former out-of-staters.” *IDES & MAY*, *supra* note 17, at 247 (citing *Metropolitan Life Ins. Co. v. Ward*, 470 U.S. 869 (1985) (rational basis equal protection test barred Alabama from taxing out-of-state companies at higher rate than domestic companies); *Zobel v. Williams*, 457 U.S. 55 (1982) (rational basis equal protection test barred Alaska from paying new residents lower annual dividends than are paid to long-term residents)).

⁴² *Baldwin*, 436 U.S. at 391. The dissent, however, rejected any notion of “ownership” as “no more than a 19th-century legal fiction expressing the importance to its people that a State have the power to preserve and regulate the exploitation of an important resource.” *Id.* at 405 (citing *Toomer v. Witsell*, 334 U.S. 385, 402 (1948)).

⁴³ *Id.* (citing *Lacoste v. Department of Conservation*, 263 U.S. 545, 552 (1924)). Professor Tribe comments: “Baldwin is thus another decision evincing a special judicial solicitude for efforts by the states to protect the environmental... needs of their residents.” *TRIBE*, *supra* note 20, at 40 (Supp. 1979).

⁴⁴ 301 F.3d 985 (9th Cir. 2002). Other defendants included Duane Shroufe, who was the Director of the Arizona Game and Fish Department, and others who were either members of the Arizona Game and Fish Commission or an employee of the Department.

interstate commerce to such an extent that the dormant Commerce Clause applied to the regulation. The facts of *Conservation Force* are quite similar to those developed in *Baldwin*.

Partly in response to pressure from in-state Arizona hunters, the Arizona Department of Game and Fish amended Rule 12-4-114 of the Arizona Administrative Code in order to place a ten percent cap on the number of tags that could be awarded to nonresidents for hunting of bull elk throughout the state and for antlered deer north of the Colorado River. Very much like Montana, Arizona is the home to what many hunters and conservationist alike consider to be “the best deer and elk hunting in the world, exemplified by the world record animals harvested from its land.”⁴⁵ Again, by comparison, “the quality of hunting in Arizona is in large part a result of the conservation efforts supported by Arizona citizens and administered by the Arizona Department of Game and Fish.”⁴⁶ However, unlike the situation in Montana, the plaintiffs were professional hunters and guides residing in New Mexico, who had applied for hunting tags across the country in order to obtain the meat from the animals, their hides, their ivories, and most especially, the head and rack of antlers in order to profit from the sale and the use of nonedible parts. While Arizona prohibited the commercial exchange of the edible portions of the harvested animals, it permitted the sale of the nonedible portions.⁴⁷

The original suit filed by the plaintiffs alleged that the Arizona regulation violated the Commerce, Privileges and Immunities, and Equal Protection Clauses of the U.S. Constitution. The plaintiffs requested a declaratory judgment as to the invalidity of the regulation, as well as unspecified damages. The district court granted the defendant’s (the Department) cross motion for summary judgment on the Commerce Clause claim. The plaintiffs then voluntarily agreed to dismiss the remaining counts of the complaint and filed an appeal. The Ninth Circuit Court of Appeals agreed to review the grant of summary judgment de novo.⁴⁸ Would *Baldwin v. Montana Fish and Game Commission* control, or would the Ninth Circuit distinguish this case on the basis of some important factual or legal distinction?

⁴⁵ *Id.* at 988.

⁴⁶ *Id.* at 989.

⁴⁷ The Court noted that there was both an interstate and international market for the antlers and the hides of deer and elk. Poor quality elk antlers that could not be used for “trophy purposes” would routinely be sent to Korea where they were processed into nutritional supplements. The better quality antlers are used for display and for creating art and furniture and “can sell for hundreds to thousands of dollars, up to \$50,000 for the very best.” *Id.* at 990.

⁴⁸ See *Lite-On Peripherals, Inc., v. Burlington Aire Express, Inc.*, 255 F.3d 1189, 1192 (9th Cir. 2001), *cert. denied*, 122 S. Ct. 1067 (2002).

A. The “Dormant” Commerce Clause

The jurisprudence surrounding the United States Supreme Court interpretation of the so-called “negative” or “dormant” Commerce Clause⁴⁹ is based on the viewpoint that the United States should be free of “conflicting commercial regulations, destructive of the harmony of the States”⁵⁰ and that the United States should be composed of states “that without certain residency requirements... would cease to be separate political communities that history and the constitutional text make plain were contemplated.”⁵¹

Even though the Commerce Clause was phrased in affirmative terms as a grant of regulatory power to Congress, the Supreme Court has interpreted the Clause to have an important “negative aspect”—referred to as the dormant Commerce Clause—that essentially denies to the States “the power unjustifiably to discriminate against or burden the interstate flow of commerce.”⁵² At the same time, the Court has attempted to interpret the Commerce Clause so as to avoid hampering any state’s “ability to structure relations exclusively with its own citizens,”⁵³ striving to “develop a set of rules by which we may preserve a national market without needlessly intruding upon the States’ police powers, each exercise of which no doubt has some effect on the commerce of the Nation.”⁵⁴

⁴⁹ “Congress shall have Power... to regulate Commerce... among the several States.” U.S. CONST. art 1, § 8, cl. 1, 3. The inclusion of the Commerce Clause in the United States Constitution was partially as a result of the experiences of the Articles of Confederation “when victory relieved the Colonies from the pressure for solidarity that war had exerted, a drift toward anarchy and commercial warfare between the states began” in which “each state would legislate according to its estimate of its own interests, the importance of its own products, and the local advantages or disadvantages of its position in a political or commercial view.” See *H.P. Hood & Sons, Inc. v. Du Mond*, 336 U.S. 525 (1949) (holding that New York’s refusal of an operating license to a Boston milk distributor, although based on facially neutral requirements and criteria for issuance, was the product of economic protectionism, applying a *per se* rule of invalidity).

⁵⁰ *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1 (1824). See also Arthur B. Mark, III, *Currents in Commerce Clause Scholarship Since Lopez: A Survey*, 32 CAP. U.L. REV. 671 (2004) (arguing that despite the broad language in *Gibbons v. Ogden*, Marshall’s opinion suggests that federal regulation of intrastate activities under the Commerce Clause extends only to those forms of conduct that concern the transport of goods throughout the states, and not all economic activity).

⁵¹ *Supreme Court of New Hampshire v. Piper*, 470 U.S. 274, 282 n.13 (1985).

⁵² *Conservation Force*, 301 F.3d at 991 (citing *Or. Waste Sys., Inc. v. Dep’t of Envtl. Quality*, 511 U.S. 93 (1994) (holding that the practice of law was sufficiently fundamental to the national purpose of the clause, striking down a New Hampshire limitation because New Hampshire’s justifications were inadequate).

⁵³ *Reeves, Inc. v. Stake*, 447 U.S. 429, 441 (1980).

⁵⁴ *Camps Newfound/Owatonna, Inc. v. Town of Harrison*, 520 U.S. 564 (1997) (Scalia, J., dissenting).

The district court had concluded that the Commerce Clause was not applicable because hunting is “recreation,” which is not a “form of interstate commerce,” and because parts of elk and deer do not become articles of commerce until they are “reduced to possession” by a hunter.⁵⁵ The district court based its conclusions on *Baldwin v. Fish & Game Comm’n*, which held that recreational hunting is not one of the fundamental rights protected by the Privileges and Immunities Clause of the U.S. Constitution⁵⁶ and its statement in *Hughes v. Oklahoma* that “when a wild animal [itself] ‘becomes an article of commerce... its use cannot be limited to the citizens of one State to the exclusion of citizens of another State.’”⁵⁷

However, the Supreme Court in *Hughes* had also indicated that even wild animals, “killed for the purposes of food,” may be articles of commerce for the purposes of analysis under the dormant Commerce Clause.⁵⁸ In addition, the Ninth Circuit noted that while the “Commerce Clause and the Privileges and Immunities Clauses have a ‘mutually reinforcing relationship’ stemming ‘from their common origin in the Fourth Articles of the Articles of Confederation and their shared vision of federalism,’”⁵⁹ challenges under each clause would not be identical. In order to determine whether the dormant Commerce Clause is applicable to the Arizona regulation, the Ninth Circuit was not concerned about whether the activity regulated was a right “fundamental to the vitality of the nation as a single entity,” but whether the activity sought to be regulated has a “substantial effect on interstate commerce” so that Congress could regulate the activity.⁶⁰

The circuit court specifically found that hunting substantially affects interstate commerce, therefore subjecting the regulation to the Commerce Clause, because:

- Hunting in Arizona promotes interstate travel of people who may wish to take advantage of Arizona’s excellent hunting opportunities; and

⁵⁵ *Conservation Force*, 301 F.3d at 991.

⁵⁶ *Baldwin*, 436 U.S. 371, 388 (1978).

⁵⁷ *Hughes*, 441 U.S. 322, 339 (1979) (quoting *Geer v. Connecticut*, 161 U.S. 519 (1896) (Field, J., dissenting)).

⁵⁸ *Id.* at 329 (quoting *Geer v. Connecticut*, 161 U.S. at 541 (Field, J., dissenting)).

⁵⁹ *Conservation Force*, 301 F.3d at 993 (quoting *Hicklin v. Orbeck*, 437 U.S. 518 (1978) (striking down Alaska’s law requiring employers in the oil business to prefer Alaskans to “outsiders” in hiring for jobs in the oil industry and holding that the opportunity to seek employment is fundamental to the promotion of interstate harmony)).

⁶⁰ *Id.* at 993 (citing *Hughes*, 441 U.S. at 326 n.2).

- Hunting in Arizona substantially affects the interstate flow of goods in commercial markets.⁶¹

Because the hunting of bull elk and antlered deer in Arizona substantially affects interstate commerce, the circuit court determined that the Arizona restrictions on hunting by nonresidents implicated the dormant Commerce Clause. However, this conclusion would not *necessarily* mean that the regulation violates the dormant Commerce Clause because “the existence of unexercised federal regulatory power does not categorically foreclose state regulation.”⁶²

B. Is The Regulation Nonetheless Valid?

In attempting to resolve the issue, the United States Supreme Court has developed a two-pronged analysis in order to determine if a regulation is valid, despite its substantial effect on interstate commerce:

- First, does the regulation discriminate against interstate commerce? and
- Second, even where the state regulates “evenhandedly” (in a non-discriminatory manner), does the regulation impose some burden on interstate commerce?⁶³

Applying the analysis to the Arizona regulation, the circuit court noted that a state discriminates against interstate commerce by treating differentially in-state and out-of-state economic interests so that the regulation benefits in-state residents and burdens out-of-state economic interests.⁶⁴ Interestingly, in such a case, the regulation would be subject to strict scrutiny under which it would be the state’s burden to show that

⁶¹ *Id.* at 993-94. The Ninth Circuit ruled that “Arizona hunting substantially affects the interstate flow of goods through the channels of commerce since Arizona allows the nonedible portions of bull elk and antlered deer taken from its lands to be sold in interstate and international markets.” *Id.* (citing *Montoya v. Shroufe*, 2004 U.S. Dist. LEXIS 13353, at *6 (D.C. Ariz. July 13, 2004)).

⁶² *Conservation Force*, 301 F.3d at 995 (citing *Sporhase v. Nebraska*, 458 U.S. 941 (1982) (noting that the importance a state may place in preserving its water resources may justify a limited preference to its citizens)).

⁶³ *See C & A Carbone, Inc. v. Town of Clarkstown*, 511 U.S. 383, 389-90 (1994) (striking down a New York “flow control” statute as a “form of discrimination against interstate commerce in favor of local business”).

⁶⁴ *Conservation Force*, 301 F.3d at 995 (citing *Oregon Waste*, 511 U.S. at 99) (rejecting Oregon’s claim that it was merely protecting its resources rather than its economy)). In its discussion of *Sporhase* and resource protectionism, the *Oregon Waste* court stated that “however serious the shortage in landfill space may be... ‘no State may attempt to isolate itself from a problem common to the several States by raising barriers to the free flow of interstate trade.’” *Oregon Waste*, 511 U.S. at 108 (quoting *Chemical Waste Mgmt., Inc. v. Hunt*, 504 U.S. 334, 339-340 (1992)).

“the discrimination is narrowly tailored to further a legitimate interest.”⁶⁵ Rejecting the district court’s holding that the plaintiff’s were required to prove that the cap imposed a burden on interstate commerce “clearly excessive in relation to its putative local benefits,” the circuit court determined that the Arizona cap on nonresident hunting licenses was not an even-handed regulation and thus, as overt discrimination, it would be subject to the “strictest scrutiny” under the dormant Commerce Clause.⁶⁶ Accordingly, the circuit court turned its analysis to determining whether Arizona has met its burden of demonstrating that its ten percent cap on nonresident hunting is “narrowly tailored to serve legitimate interests of the state.”⁶⁷ Note that the strict test actually has two elements: first, establishing that the regulations meet the “legitimate interests” of the State, and then determining that the regulations had been narrowly tailored to meet these interests.

The circuit court first analyzed whether Arizona had set forth legitimate interests for its regulatory scheme, since “the Commerce Clause... does not elevate free trade above all other values.”⁶⁸ The court noted that Arizona’s cap on nonresident hunting was designed to conserve the population of game while, at the same time, maintaining recreational hunting opportunities for its citizens.⁶⁹ However, such considerations will not alone justify a preference for Arizona citizens in access to Arizona’s game—especially “where the resource in question is “produced” by conservation, rather than being the end product of a complex process [by the state] whereby a costly physical plant and

⁶⁵ *Conservation Force*, 301 F.3d at 995 (citing *Sporhase*, 458 U.S. at 957-58)). On the other hand, if a state regulates “evenhandedly,” in a non-discriminatory manner, the regulation is valid unless the *plaintiff can show* that it imposes a burden on interstate commerce. See *Pike v. Bruce Church, Inc.*, 397 U.S. 137 (1970) (concluding that Arizona’s objective of protecting the reputation of Arizona’s high quality cantaloupes was legitimate but of “slight importance,” and holding that the burdens placed on interstate commerce were substantial). See also David S. Day, *Revisiting Pike: The Origins of the Nondiscrimination Tier of the Dormant Commerce Clause Doctrine*, 27 *HAMLIN L. REV.* 45 (2004) (reevaluating the *Pike* decision in examining what has come to be known as the nondiscrimination standard for the dormant Commerce Clause doctrine). *Id.* at 46.

⁶⁶ *Conservation Force*, 301 F.3d at 995 (citing *City of Philadelphia v. New Jersey*, 437 U.S. 617 (1978)).

⁶⁷ *Id.* at 996.

⁶⁸ See *Maine v. Taylor*, 477 U.S. 131, 151 (1986) (holding that a Maine law prohibiting the importation of non-native bait fish served the legitimate goal of preserving native fish species from destruction and was justified because Maine proved that testing and screening of imported baitfish [a less discriminatory alternative] would not be effective and would not accomplish Maine’s legitimate objective).

⁶⁹ See, e.g., *Kleppe v. New Mexico*, 426 U.S. 529, 545 (1976) (“Unquestionably the States have broad trustee and police powers over wild animals within their jurisdiction.”).

human labor act on raw materials.”⁷⁰ While Arizona never asserted that its ten percent cap on nonresident hunting was designed to protect an important and traditional food source for its citizens,⁷¹ the court found that elk and deer in Arizona were scarce and were products of its considerable conservation efforts—additional factors supporting the legitimacy of the state’s interests in ensuring the conservation of its elk and deer populations and maintaining the availability of these populations for recreational hunting by citizens of Arizona.

Thus, the Ninth Circuit concluded that Arizona had met its burden under the strict scrutiny analysis by putting forth “legitimate interests” in preserving the health of its elk and deer populations and in maintaining hunting opportunities for its citizens. The court then moved to the second element of the strict scrutiny test—inquiring whether the ten percent cap was narrowly tailored to meet these legitimate ends.⁷²

While the circuit court considered a number of alternatives (for example, assuring the continued support of Arizona citizens for conservation programs; representing the “political will” of Arizona residents; or mimicking other states that have similarly restricted nonresident hunting), the court rejected these assertions as falling below the type of proof required under strict scrutiny analysis—but, at the same time, holding that the Rule’s overt discrimination did not automatically render it unconstitutional. The Ninth Circuit did not completely “foreclose the possibility that the goal of ensuring a state’s citizens’ access to recreational opportunities may justify limited consideration of

⁷⁰ *Conservation Force*, 301 F.3d at 996 (citing *Reeves*, 447 U.S. at 444).

⁷¹ *Conservation Force*, 301 F.3d at 997.

⁷² The “narrow tailoring” analysis has been formulated in various ways. In *C & A Carbone*, the Supreme Court noted that the analysis must focus on the requirement that the state “demonstrate, under rigorous scrutiny, that it has no other means to advance a legitimate local interest.” 511 U.S. at 392. In *Oregon Waste*, the Court noted that the regulation “must be invalidated unless [the state] can show that it advances a legitimate purpose that cannot be adequately served by reasonable nondiscriminatory alternatives.” 511 U.S. at 100-101. And, in *Hughes*, the Court noted that it is the state’s burden to show, under the “strictest scrutiny,” that the regulation is the “least discriminatory alternative” to advance a legitimate purpose. See *Hughes*, 441 U.S. at 337-38. *Carbone* may be seen as fully in line with the decision in *Hughes* that “far from choosing the least discriminatory alternative, Oklahoma has chosen to [protect its legitimate interest] in the way that most overtly discriminates against interstate commerce.” *Id.* at 337-38.

See also RONALD D. ROTONDO & JOHN E. NOWAK, TREATISE ON CONSTITUTIONAL LAW, SUBSTANCE AND PROCEDURE § 11.8, at 173 (3d ed. 1999) (“Where there is discrimination [against interstate commerce] the [*Dean Milk Co. v. City of Madison*] case holds, it must appear that there is no other reasonable method of safeguarding a legitimate local interest.” *Id.* (citing *Dean Milk Co. v. City of Madison*, 340 U.S. 349 (1951) (striking down a Madison [Wisconsin] ordinance barring the sale of milk in Madison unless it had been pasteurized within a five-mile radius of Madison).

residency in the allocation of hunting tags in some circumstances.”⁷³ A factual determination was in order.

Accordingly, the Ninth Circuit returned the matter to the district court to determine whether there were other less discriminatory means that could serve Arizona’s legitimate interests. How would the district court respond to this challenge?

V. BACK TO THE DISTRICT COURT⁷⁴

After the petition for a writ of certiorari to the United States Court of Appeals for the Ninth Circuit was denied by the United States Supreme Court,⁷⁵ the case was returned to the United States District Court for the District of Arizona. On remand, and in light of the Ninth Circuit’s mandate,⁷⁶ the district court framed the issue as follows: “This court must now determine whether the overtly discriminatory Rule, promulgated by the state to serve the state’s legitimate interests constitutes the only way Arizona can accomplish that purpose.”⁷⁷ The district court added: “This court’s inquiry on remand is whether the Rule is the ‘least discriminatory alternative’ to serve Arizona’s legitimate interests.”⁷⁸

⁷³ *Montoya v. Shroufe*, 2004 U.S. Dist. LEXIS 13353, at *8 (D.C. Ariz. July 13, 2004).

⁷⁴ *See generally id.* The case was returned to the court of Senior United States District Judge Robert C. Broomfield.

⁷⁵ *Gologhtly v. Montoya*, 537 U.S. 1112 (2003).

⁷⁶ Judge Broomfield noted that since the mandate was the “official record” in the case, all references to that document were cited to the official mandate, as opposed to the Federal Reporter’s published version of the opinion, found in *Conservation Force, Inc. v. Manning*, 301 F.3d 985.

⁷⁷ *Montoya*, 2004 U.S. Dist. LEXIS 13353, at *6. Recall that the circuit court had recognized that “Arizona’s cap on nonresident hunting was designed to serve its interests in conserving the population of game on its land while maintaining recreational hunting opportunities for its citizens. These interests are unquestionably legitimate. The protection of wildlife and other natural resources of a state are ‘of the state’s most important interests.’” Thus, the district court was not required to re-visit the issue of whether the Rule served a “legitimate interest.” *See id.* at *6-*7 (citing *Pac. N.W. Venison Producers v. Smitch*, 20 F.3d 1008, 1013 (9th Cir. 1994).

⁷⁸ *Id.* at *8 (citing *Hughes*, 441 U.S. 322, 337-38). The district court responded to the Ninth Circuit’s mandate and denied the plaintiff’s motion for summary judgment, holding that a factual question existed as to whether the Rule was the “least discriminatory alternative” to serve Arizona’s legitimate interests. Upon review of the supplemental pleadings, the court found that genuine issues of fact indeed existed and determined that a trial was necessary. *Id.* at *4. The Ninth Circuit had stated: “Where there are other less discriminatory means that could serve adequately Arizona’s legitimate interests is a question of fact we leave to the district court in the first instance.” *Id.* at *19 (citing *Mandate* (doc. 133) at 12222).

There was some considerable discussion about the defendant’s contention that “the burden advocated by Plaintiffs is impossible to meet”; Arizona cannot possibly disprove ‘all other conceivable alternatives’ to its current regulation.” *Id.* at *10 (citing *Response* (doc.167) at 5). Defendants also argued that “the Court of Appeals simply got the

The district court noted that the terms “no other means” and “least discriminatory alternative” are used interchangeably by the court.⁷⁹ The district court also noted that while the burden to show discrimination rests on the party challenging the validity of the statute, “when discrimination against commerce is demonstrated, the burden falls on the *state* to justify it both in terms of local benefits flowing from the statute and the unavailability of nondiscriminatory alternatives adequate to preserve the local interests at stake.”⁸⁰

Having taken and referenced specific evidence on this issue,⁸¹ the district court concluded that the defendants had failed to sustain their burden to demonstrate that a less discriminatory alternative would adequately serve Arizona’s legitimate interest in preserving resident hunting opportunities. The district court stated: “In other words, defendants have not demonstrated that Arizona could not adequately achieve its goals... if these relatively small additional percentages of nonresidents were allocated tags for the premium hunts at issue. The evidence demonstrates the contrary.”⁸² At best, noted Judge Broomfield, “the evidence indicates that the only detrimental effect to Arizona will be—not to its ability to adequately preserve hunting opportunities for its citizens—but only to upset some unspecified number of residents who favor the current system currently in place.”⁸³ The Ninth Circuit had already addressed this argument and had stated: “Allowing the intensity of the political will in a state to justify discrimination against nonresidents would radically undermine the representation reinforcing policies underlying the dormant Commerce Clause doctrine.”⁸⁴

As a possible bromide to local interests, Judge Broomfield specifically noted that Arizona was free to attempt to craft a new rule—with the

standard wrong. They argue that this court should look to applicable Supreme Court precedent, which, they argue, differs from the standard articulated by the Ninth Circuit.” *Id.* at *11 (citing Response (doc.167) at 3-5). The district court rejected these arguments and stated that the Ninth Circuit had “effectively followed Supreme Court precedent in setting forth the standard applicable to this case on remand. The standard it set forth, requiring the state to shoulder the burden to demonstrate that the Rule is the ‘least discriminatory alternative’ (i.e., that it has no other means’) to advance its legitimate interests is well-grounded in controlling Supreme Court precedent.” *Id.* at *19-*20.

⁷⁹ *Id.* at *10.

⁸⁰ *Id.* at *17 (citing *Hughes*, 441 U.S. at 336).

⁸¹ *Id.* at *25-*27 (testimony of Stephen K. Ferrell, Deputy Director of the Arizona Game and Fish Department).

⁸² *Id.* at *29. Included in this evidence was the determination that Arizona had not demonstrated that its ten percent cap was necessary to achieve Arizona’s interests or that a relatively small number of additional tags issued to nonresidents would likewise impinge on Arizona’s interests.

⁸³ *Id.* at *29-*30.

⁸⁴ *Id.* at *33 (citing Mandate (doc. 133) at 12220).

understanding that it must comport with the Commerce Clause. In so doing, Arizona was not tied to any specific alternatives. "Arizona has complete freedom to craft a rule which adequately serves its legitimate interests so long as it does not violate the Constitution."⁸⁵

VI. CONCLUSION

On remand, the district court carefully applied the mandate of the Ninth Circuit and concluded that a less discriminatory alternative was available to the Arizona Rule. Thus, the Arizona Rule was struck down as a violation of the United States Constitution. The district court granted the plaintiff's motion for a summary judgment and awarded a permanent injunction against enforcement of the Rule.

Yet, the debate continues in both the conservation and hunting communities.⁸⁶ John J. Jackson, legal counsel and chairman of the *Conservation Force*, a leading hunting advocacy organization for the nonresident hunter, applauds the 2002 decision of the Ninth Circuit Court of Appeals in *Conservation Force* and the 2004 decision of the Arizona District Court in *Montoya*: "The distribution of our natural resources should not depend upon where you hand your hat. We are one nation. If we remove the barriers to the free movement of people and share resources more equally, America will be stronger and our wildlife more secure."⁸⁷ Don Higgins, director of the Illinois *Bowhunter's Society*, is equally adamant in his opposing viewpoint: "We owe it to the game we pursue and our fellow hunters to act responsibly. A big part of this responsibility falls to the people who make the regulations there. Cutting them out of the picture will only hurt wildlife. Limiting

⁸⁵ *Id.* at *35-*36. For a discussion of such a possible case or instance, see Sarah H. Davis, *Carlson v. State and the Privileges and Immunities Clause: The Alaska Wrinkle in Nonresident Fishing Fee Differentials*, 21 ALASKA L. REV. 91 (2004) (discussing *Carlson v. State*, in which the Alaska Supreme Court allowed the State to charge nonresident commercial fishermen more for commercial fishing fees than it did resident commercial fishermen as long as the fee differential merely compensated the State for the added expense of the nonresidents or balanced out the expenses borne by residents to which nonresidents do not contribute). See also *Carlson v. State*, 65 P.3d 851 (Alaska), cert. denied, 1248 S. Ct. 387 (2003) (construing the relevant sections of former 20 Alaska Administrative Code (AAC) 05.240(a)(1), 2, (4) (2002).

⁸⁶ See, e.g., Peter C. Nicolaysen, Comment, *Reserving Wildlife for Resident Consumption: Is the Dormant Commerce Clause the Outfitters White Knight*, 32 LAND & WATER L. REV. 125 (1997) (opining that Wyoming's license allocation, in imposing more than an incidental burden on interstate commerce, may be threatened by the dormant Commerce Clause).

⁸⁷ Jackson, *supra* note 4, at 73.

nonresident hunters is a necessary regulation with which we can all live.”⁸⁸

Interestingly, *Baldwin*, *Conservation Force*, and *Montoya* involved issues of relatively small magnitude. The putative rights of resident and non-resident elk and deer hunters hardly qualify as momentous when juxtaposed with other rights that have been litigated under the Privileges and Immunities Clause, the Equal Protection Clause of the Fourteenth Amendment, or the Commerce Clause.⁸⁹ Yet, through a careful analysis of the origin, import, and implications of these three key provisions of the Constitution, we can learn that the basic arguments raised in *Baldwin*, *Conservation Force*, and *Montoya* provide the intellectual basis for an analysis of most “rights controversies” that go far beyond issues involved with hunting, preservation, or wildlife conservation.⁹⁰ These controversies will be left for future resolution, perhaps based on Justice Marshall’s “sliding scale” approach that would recognize that just as “All interests not ‘fundamental’ and all classes not ‘suspect’ are not the same; and it is time for the Court to drop the pretense that, for purposes of the Equal Protection Clause, they are,”⁹¹ the same should be true for an analysis under the Commerce Clause or other important constitutional provisions.

⁸⁸ Don Higgins, *States Should Limit Nonresident Hunters*, OUTDOOR LIFE, Dec./Jan. 2005, at 73.

⁸⁹ See generally CHRISTOPHER N. MAY & ALLAN IDES, CONSTITUTIONAL LAW: NATIONAL POWER AND FEDERALISM, ch. 8 (2001).

⁹⁰ One such amplification of rights may be found in Robert A. Sedler, *The Constitution Should Protect the Right to Same-Sex Marriage*, 49 WAYNE L. REV. 975 (2004) (arguing that the Equal Protection Clause should be interpreted by the United States Supreme Court to prohibit the state from discriminating against same-sex persons by denying them the right to enter into the legal relationship of marriage); Amelia Craig Cramer, *Civil Marriage and Same-Sex Couples: The Freedom to Marry Must Not Be Denied*, 40 ARIZ. ATT’Y. 14 (2004) (arguing that the constitutional guarantees of equal protection requires that same-sex couples be afforded the same rights as different-sex couples).

⁹¹ *Massachusetts Bd. of Retirement v. Murgia*, 427 U.S. 307, 321 (1976) (Marshall, J., dissenting) (urging that the Court employ a “variable standard of review” whose intensity would depend on (1) the basis or character of the classification and (2) the importance of the interest adversely affected.).

DOES TITLE IX CREATE A PRIVATE RIGHT OF ACTION TO SUE OVER RETALIATION?

by MICHAEL E. JONES*

INTRODUCTION

Oral arguments began a few minutes earlier than scheduled in the civil rights case of *Roderick Jackson v. Birmingham Board of Education*.¹ Justice Scalia had just launched a verbal attack on petitioner's attorney, Walter Dellinger, as I took my seat at the U.S. Supreme Court. What Justice Scalia wanted to know was how a girls' high school basketball coach, who had been allegedly terminated for complaining to school authorities about gender based disparity in facilities and equipment, could possibly seek a *private* remedy under Title IX when he wasn't the person discriminated against. Title IX bars discrimination based on sex or gender in federally funded educational institutions.² The petitioner, Coach Jackson, was not the victim of sex discrimination here, argued Scalia, the female basketball players were, and these girls were not a party to this lawsuit.

It did not take long for Justice Souter to come to the rescue of petitioner's attorney. Justice Souter pointed out that in many ways this case presents itself as a classic retaliation claim. In 2001 Coach Jackson maintains he was fired as coach by the Birmingham School Board for

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¹ *Jackson v. Birmingham Board of Education*, 309 F. 3d 1333 (11th Cir. 2002), certiorari granted 124 S.Ct. 2834 (2004).

² Title IX of the Education Amendments of 1972, Pub. L. 92-318, 86 Stat.373, as amended, 20 U.S.C. section 1681 et seq (1972).

complaining about gender bias. The sole Title IX remedial regulatory provision is to withhold federal funds from the school.³ This remedy is “not good enough,” argued Justice Souter, because Jackson would not be reinstated as coach or receive back pay. Justice Souter maintained that, because the administrative response was inadequate, the only way to prevent further retaliation by schools receiving federal funds would be to create a *private* right of action for people like Coach Jackson to help enforce Title IX’s terms.

In these first fifteen minutes of oral argument on November 30, 2004 (with Chief Justice Rehnquist not in attendance), Justices Scalia and Souter succinctly set the stage for the remainder of the debate. Quite simply the issue before the Court was whether strict statutory Title IX construction and legislative history should win out over logic and long-standing judicial interpretation. This case has an unusual appeal because it brings together gender discrimination and employment law under a federal statute that is silent on whether the *advocate* for victims in a school setting can bring a private lawsuit.

The purpose of this paper is to discuss the current state of the law regarding the existence of a private cause of action based on a retaliation claim under Title IX. Then this paper will briefly review the Court’s recent decision. The subject matter is particularly interesting for those who teach or practice in the areas of labor, education, civil rights, and sports/entertainment law.

I. TITLE IX AND OTHER PERTINENT CIVIL RIGHTS STATUTES

Title IX was signed into legislation under the Nixon administration. It provides that “(n)o person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving federal financial assistance.”⁴ High schools, elementary schools, vocational schools, professional schools, and higher education schools all fall within the definition of “educational institutions” under the statute.⁵ Any federal funding received by the education program or institution, even if unrelated to athletics, will cause the school’s athletic

³ See 20 U.S.C. section 1682 (1972).

⁴ Title IX, *supra* note 2.

⁵ See 20 U.S.C. section 1681 (c) , which states “For purposes of this chapter an educational institution means any public or private preschool, elementary, or secondary school, or any institution of vocational, professional, or higher education, except that in the case of an education institution composed of more than one school, college, or department which are administratively separate units, such terms means each such school, college, or department.”

program to fall within the coverage of Title IX.⁶ It provides a statutory cause of action separate and independent from constitutional challenges.

Roderick Jackson was a coach of the girls' basketball team at Ensley High School, a public school receiving federal funds located in Birmingham, Alabama.⁷ He was relieved of his coaching duties by the Birmingham Board of Education after complaining about gender bias; however, he remained a teacher in the school system.⁸ There is no disagreement over the fact that the Birmingham Board of Education meets the "receiving federal financial assistance" and "educational institution" requirements under Title IX.

What is in dispute is how expansively one should interpret the "discrimination on the basis of sex (gender)" prohibition. In *United States v. Price*, for instance, the U.S. Supreme Court said lower courts must accord Title IX "a sweep as broad as its language."⁹ Does this mean that the *form* of discrimination does not matter under Title IX?

Previously, the Court has ruled that employment discrimination and sexual harassment are encompassed within the parameters of Title IX's prohibitions.¹⁰ By definition "discrimination" means "differential treatment of similarly situated groups."¹¹ One might argue, then, that singling out someone for reprisal because he or she has complained about discrimination is a form of discrimination. There is support for this view in 38 U.S.C. section 516 (d), where the Code states that "retaliation" is a form of discrimination. The next question is whether retaliation is a form of discrimination intended by Congress to be encompassed by Title IX.

In 1969 the U.S. Supreme Court in *Sullivan v. Little Housing Park, Inc.* held that 42 U.S.C. section 1982, which prohibits discrimination in property transactions, also protects from retaliation those who complain about such discrimination.¹² The Court noted that section 1982 makes

⁶ Civil Rights Restoration Act of 1987 (20 U.S.C. section 1687-88). This Act effectively overruled *Grove City College v. Bell*, 465 U.S. 444 (1984), which had held that Title IX applied only to specific programs within a school that received federal funds.

⁷ See Linda Greenhouse, Retaliation at Issue in Discrimination Case, THE NEW YORK TIMES, December 1, 2004, at A16, col 3.

⁸ See Richard Willing, Court Weighs Whether Law Covers Fired Coach, USA TODAY, December 1, 2004, at 4a., col 5.

⁹ 383 U.S. 787, 801 (1966), See also *North Haven Bd. of Educ. v. Bell*, 456 U.S. 512, 521 (1982) quoting *Price* at 801.

¹⁰ See *North Haven Bd. Of Educ. v. Bell*, 456 U.S. at 530 (1982).

¹¹ *Olmsted v. L.C.*, 527 U.S. 581, 614 (1999) (Justice Kennedy concurring in judgment). See *Newport Shipbuilding and Dry Dock Co. v. E.E.O.C.*, 462 U.S.669, 680 n.22 (1983), (defining discrimination as "less favorable treatment").

¹² 396 U.S. 229 (1969). Specifically section 1982 provides that "(a)ll citizens of the United States shall have the same right, in every State and Territory, as is enjoyed by white citizens thereof to inherit, purchase, lease, sell, hold, and convey real and personal property." 42 U.S.C. Section 1982 (1964).

no reference to “retaliation.”¹³ However, by allowing the community housing park to expel Sullivan, a white person, for trying to transfer his member shares to a black person, such a limited interpretation of Section 1982 “would give impetus to the perpetuation of racial restrictions on property.”¹⁴ A number of lower federal courts have followed the logic and reach of this opinion by finding redress for retaliation in cases under 42 U.S.C. section 1981, which prohibits discrimination in contracting even where there is no express anti-retaliation provision.¹⁵

Other sections of the U.S.C. have been similarly construed. For instance, the provisions of Title VII of the Civil Rights Act of 1964, 42 U.S.C. section 2000e-16, and the Age Discrimination Employment Act, 29 U.S.C. section 633a, which broadly prohibit “discrimination” in federal employment, and does not expressly reference “retaliation,” have been interpreted to ban retaliation.¹⁶ Originally, section 504 of the Rehabilitation Act, 29 U.S.C. section 794 did not contain express language prohibiting retaliation. In *Hoyt ex rel Siebert v. St Mary’s Rehab. Ctr.*, however, an Eighth Circuit opinion, the anti-discrimination aspect of this statute was construed to include an implied prohibition on retaliation.¹⁷ Interestingly, in 1992, Congress amended the statute to prohibit retaliation as it relates to discrimination under the Americans with Disabilities Act portion of the statute (see 29 U.S.C. section 794(d) incorporating 42 U.S.C. section 12203), but it did not expressly add anti-retaliation prohibitions for other kinds of discrimination complaints. Yet, as recently as 2000, courts have continued to construe the general anti-discrimination provisions of section 504 to provide protection from retaliation in the absence of specific language.¹⁸

Title IX was modeled after Title VI of the Civil Rights Act of 1964, except the word “sex” replaces “race, color or national origin.”¹⁹ Eight years separate the enactment of these two civil rights bills. Neither statute mentions nor references the word “retaliation.”

¹³ 396 U.S. at 237.

¹⁴ *Id.*

¹⁵ See *Foley v. Univ. of Houston*, 355 F.3d 333, 339 (5th Cir. 2003); *Johnson v. Univ. of Cincinnati*, 215 F.3d 561, 576 (6th Cir. 2000); *Hawkins v. 1115 Legal Serv. Care*, 163 F.3d 684, 693 (2d Cir. 1998); *Andrews v. Lakeshore Rehab. Hosp.*, 140 F.3d 1405, 1412-13 (11th Cir. 1998); *Barge v. Anheuser-Busch, Inc.*, 87 F.3d 256, 259 (8th Cir. 1996).

¹⁶ See *Forman v. Small*, 271 F. 3d 285, 296-97 (D.C. Cir. 2001 (ADEA)); *Ray v. Henderson*, 217 F 3d 1234, 1240 (9th Cir. 2000) (Title VII); *Brown v. Runyon*, 178 F. 3d 1002, 1005 (8th Cir. 1999) (Title VII); *Sweeney v. West*, 149 F. 3d 550, 554 (7th Cir. 1998) (Title VII); *DeNovellis v. Shalala*, 135 F. 3d 58, 63 n.2 (1st Cir. 1998) (implicitly recognizing ADEA claim); *Bornholt v. Brady*, 869 F.2d 57, 62 (2nd Cir. 1989) (stating in dictum that ADEA claim exists); *Camino v. EEOC*, 707 F. 2d 468, 471-72 (11th Cir. 1983) (Title VII); *Porter v. Adams*, 639 F. 2d 273, 277-78 (5th Cir. 1981) (Title VII).

¹⁷ 711 F. 2d 864, 867 (8th Cir. 1983).

¹⁸ *Weber v. Cranston Sch.. Comm.*, 212 F. 3d 41, 47-48 (1st Cir. 2000).

¹⁹ *Cannon v. University of Chicago*, 441 U.S. 677, 695-96 (1979).

Title IX has been held to be in *pari materia* with Title VI.²⁰ The *Sullivan* decision was decided after Congress enacted Title VI. In 1964 Congress could not have known that the U.S. Supreme Court would find an implied prohibition on retaliation where it was not expressly stated. However, when Title IX was enacted in 1972, three years after *Sullivan*, Congress then was on notice. The question is, how does one interpret Congress' failure to add an express prohibition banning retaliation? Did Congress neglect to refer to "retaliation" in Title IX because it knew retaliation would be an *implied* right under *Sullivan* or does this mean Title IX's text should not be expanded because Congress purposefully left out the language? Further complicating the matter, as mentioned above, is that Congress chose to add an express private right of action for retaliation in Title VII after its original enactment, even though courts had consistently found an *implied* right.

The federal courts of appeals have split on interpreting congressional intent in this respect. The Fourth Circuit in *Litman v. George Mason University* held that Title IX authorizes a private right of action to seek damages for retaliation, as did the First and Second Circuits in earlier decisions.²¹ Both the Eighth and Tenth Circuits have also recognized an *implied* right against retaliation under Title IX.²² The Eleventh Circuit denied Jackson's claim, arguing that no *implied* private right of action or private remedy existed for retaliation guided by the U.S. Supreme Court's recent decision in *Alexander v. Sandoval*.²³ This conflict presaged the grant of Petitioner's writ of certiorari.

II. SANDOVAL

In oral argument, Justice Kennedy observed that *Sandoval* reverses a long-standing trend in judicial jurisprudence as expressed in *Cannon v. University of Chicago*,²⁴ *Lau v. Nichols*,²⁵ and *Guardians Assn. v. Civil*

²⁰ *Id.*

²¹ *Litman v. George Mason*, No. 01-2128, 2004 WL 345758 at **1, 92 Fed. Appx. 41, 42 (4th Cir. Feb. 25, 2004) (holding that Title IX authorizes a private right of action to seek damages for retaliation); *Frazer v. Fairhaven Sch. Comm.* 276 F. 3d 52, 67 (1st Cir. 2002) (establishing standard that must be met for student to prevail on Title IX retaliation claim); *Murray v. N.Y. Univ. Coll. Of Dentistry*, 57 F. 3d 243, 251 (2d Cir. 1995) (same); *Preston v. Virginia ex rel. NewRiver Cmty. Coll.*, 31 F. 3d 206 (4th Cir. 1994) (stating that retaliation against an employee for filing a claim of gender equity discrimination is prohibited under Title IX).

²² *Brine v. Univ. Of Iowa*, 90 F.3d 271, 272-3 (8th Cir. 1996); *Willner v. Budig*, 848 F. 2d 1032, 1033 (10th Cir. 1988).

²³ *Jackson v. Birmingham Board of Education*, 309 F.3d 1333 (11th Cir. 2002) (interestingly the court said no private action for retaliation existed under Title IX or Title VI). *Alexander v. Sandoval*, 532 U.S. 275 (2001).

²⁴ See *supra* note 19.

²⁵ 414 U.S. 563.

Serv. Comm'n of New York City.²⁶ These earlier Supreme Court decisions affirmed the right of private individuals to bring claims for civil rights violations to enforce rights guaranteed by Title VI. The Court split 5-4 in *Sandoval*, with the majority ruling that private individuals do not have a right to sue to enforce regulations promulgated under Title VI.²⁷ Further, the Court ruled that “congressional intent to create a private right of action had to be derived from the text and structure” of the civil rights statute.²⁸

Specifically, section 601 of Title VI decrees that “no person on the grounds of race...shall be subjected to discrimination....”²⁹ It is a reasonably well-settled judicial opinion that section 601 prohibits only instances of “intentional” discrimination.³⁰ Section 602 authorizes the promulgation of regulations to “effectuate” the provisions of section 601 by each federal department and agency.³¹ Writing for the majority in *Sandoval*, Justice Scalia found no “freestanding private right of action to enforce...regulations promulgated under section 602.”³² Justice Scalia looked at the language and legislative history of Title VI, even as later amended, and found nothing in the text or structure of the statute granting a private right to sue under section 602; nor did he find that the statute referenced a class of persons to benefit under the statute. According to Justice Scalia, the statute merely granted federal agencies the authority to issue rules, regulations, or orders to effectuate the statute.

In *Cannon*, as referenced in *Sandoval*, the Court stated that “Title IX is patterned after Title VI.”³³ And “(t)he drafters of Title IX explicitly assumed that it would be interpreted and applied as Title VI had been during the preceding eight years.”³⁴ Section 902 of Title IX contains the parallel Federal agency enabling language found in section 602. It, too, simply allows federal agencies and departments to create rules and regulations to effectuate the provisions of section 901. Nor does section 902 refer to any class of persons, i.e. victims of sex discrimination or advocates of victims of sex discrimination, to benefit from the rules and regulations.

Justice Scalia may be correct as to the lack of express statutory language creating a private right of action or class of persons to benefit

²⁶ 463 U.S. 582.

²⁷ *Sandoval*, *supra* note 23.

²⁸ *Id.*

²⁹ See *supra* note 2.

³⁰ Board of Regents of Univ. of Cal. v. Bakke, 438 U.S. 265 (1978).

³¹ See *supra* note 4.

³² *Sandoval*, *supra* note 23 at 281 & n.5 (Scalia states that no U.S. Supreme Court opinion has actually held that so it is assumed so for purposes of deciding *Sandoval*).

³³ *Id.* at 286.

³⁴ See *supra* note 24, at 694.

from retaliatory discrimination. However, he fails to properly consider that the initial regulations promulgated in 1964 by House, Education and Welfare (HEW) construed Title VI to include a prohibition on retaliation.³⁵ When Title IX was enacted the implementing regulations prohibiting “intimidatory or retaliatory” acts were still in place for Title VI.³⁶ During the Title IX hearing process Congress heard from women who described retaliatory actions taken against them for their complaints about sex discrimination.³⁷ It does not take much of a leap in statutory construction and legislative history to conclude as follows: Title IX mirrors Title VI. Title VI had enabling language recognizing and banning retaliation at the time of Title IX’s enactment. Congress did not add express language creating a private right to redress harms resulting from retaliation because it understood it would be unlawful once federal agencies implemented the same regulations found in Title VI.

This view that the regulations of Title VI were built directly into Title IX finds support in *Cannon*. There, the Court noted that Congress enacted Title IX against the backdrop of the “recently issued” decision in *Sullivan*.³⁸ Broad statutory bans on discrimination are construed to include prohibitions on retaliation, said the Court in *Sullivan*.³⁹ Even the Solicitor General in his amicus brief in support of the petition for a writ of certiorari believed that the regulations reflect an “interpretation of the terms of Title IX itself.”⁴⁰

There is language in *Sandoval* that supports this reasoning. Justice Scalia mentions that judges may play the sorcerer’s apprentice but not the sorcerer himself, when referring to the phenomenon of parties creating a private right that Congress did not authorize.⁴¹ He acknowledges that regulations which “authoritatively construe the statute itself” may be privately enforced.⁴² Coach Jackson is not relying upon the implementing regulations of Title IX, in fact, he never sought an administrative remedy before any federal agency. His argument is that by examining the “core” of Title IX, that is, the text, purpose and history,

³⁵ *Id.* at 696.

³⁶ See 29 Fed. Reg. 16,298, 16,301 (1964) (Promulgating 45 C.F.R. section 80.7(e) (1971)).

³⁷ See *Discrimination Against Women: Hearings Before the Special Subcomm.on Educ.of the House Comm. on Educ. and Labor*, 91st Cong. 242 (1970) (1970 hearings) (testimony of Dr. Ann Harris).

³⁸ *Supra* note 30 at 698 & n.22.

³⁹ *Id.*

⁴⁰ Br. For the United States as Amicus Curiae at 11 as submitted in *Jackson v. Board of Education*, 544 U.S. ____ (2005).

⁴¹ *Sandoval*, *supra* note 23.

⁴² *Id.* at 284.

one is able to demonstrate that Title IX's prohibition on discrimination on the basis of sex encompasses a ban on retaliation.

III. EFFECTUATING THE PURPOSE OF TITLE IX

Many people believe that Title IX was solely enacted to address gender disparity in athletic opportunities and funding at colleges and universities. Ironically, there is not one smidgen of legislative testimony before the passage of Title IX that even mentions the word "sports" or "athletics." The leading reported cases in the field, e.g. *Cohen v. Brown University*,⁴³ *Peterson v. Louisiana State University*,⁴⁴ and *Kelley v. Board of Trustees of The University of Illinois*,⁴⁵ have mingled gender imbalance issues with obligations of colleges and school districts to provide equal athletic opportunity. Despite the lack of specific legislative intent regarding Title IX's application to sports and schools, including high schools, it is clear that Title IX does apply, and in this instance, it applies in one of the most significant test cases since its passage.

In a sports law context, the U.S. Department of Education as well as the courts have focused on whether federally funded schools have complied with the broad mandate banning discrimination on the basis of sex. The Policy Interpretation manual for the Office of Civil Rights (OCR), which has specific enforcement powers, calls for evaluating three areas for compliance: (1) whether athletic opportunities for men and women students are provided in numbers substantially proportional to their respective school enrollments; (2) whether a school can demonstrate a history of promoting and expanding athletic opportunities for women; and (3) whether a school has fully and effectively accommodated the athletic interests and abilities of women.⁴⁶ Collectively these three areas are known as the "three prong" test for compliance.

The First Circuit *Cohen* decision is regarded as the most influential Title IX case interpreting the weight that should be given each of the three OCR evaluation areas. The court held that Brown University failed as to all three prongs, notwithstanding a record of progress in granting women the opportunity to play sports and receive benefits compared to the history of most national universities.⁴⁷ Theoretically, a school's compliance in any one of these three areas comports with Title IX's regulatory and policy interpretation mandate. Based on the gender

⁴³ *Cohen*, 101 F. 3d 155 (1st Cir. 1966) note the U.S. Supreme Court denied certiorari at 520 U.S. 1186 (1997) and remanded the matter to the Federal District Court, where ultimately the case was settled. Brown University agreed to specific improvements and additions to its women's athletic program.

⁴⁴ *Penderson*, 213 F.3d 858 (5th Cir.2000).

⁴⁵ *Kelley*, 35 F.3d 265 (7th Cir. 1994).

⁴⁶ 34 C.F.R Part 106.

⁴⁷ *Cohen*, *supra* note 43.

equity plan Brown University had submitted to meet the statute, regulations and policy interpretations for compliance, the Court found that the school must provide athletic opportunities and benefits to women “substantially proportional” to the ratio of women to men on campus.⁴⁸

In *Jackson*, though, there is no legal issue regarding compliance. The concern in this case is whether Title IX provides protection for those who protest discrimination in a sport to further purposes of the statute?

Addressing this issue in oral argument, Justice Ginsburg asked whether any sixth grade soccer girl would have the slightest idea of how to go about bringing a Title IX suit? Her point was that children need advocates. School children are unlikely to recognize unequal treatment on the basis of sex, and are generally not skilled or financially equipped to raise complaints. The most logical advocates for school children are school employees, e.g. teachers or coaches. Those individuals are in a better position to identify potential Title IX violations and bring them to the attention of school administrators for resolution. Allowing administrators to retaliate against the children’s advocates amounts to nullifying an effective voice and deterring future complaints.

There is judicial support for the notion that advocates may be in a better position to complain about Title IX discrimination than the direct victims. In *Sullivan*, quoting *Barrows v. Jackson*, 346 U.S. 249, 259 (1953), the Court noted that at times “the only effective adversary of discrimination” is someone who is not its direct target.⁴⁹

The first question Justice Breyer asked counsel for the Birmingham Board of Education was whether there was any doubt that a white person can sue for discrimination when his black friend was denied service at a restaurant even though he wasn’t personally denied service. “Of course, not,” was the tentative response. “End of case for the Birmingham Board of Education,” responded Breyer.

Breyer’s logic relies on *Sandoval* and *Sullivan* in reaching the conclusion that Coach Jackson, while an indirect victim of discrimination, has similar standing under Title IX to the direct victims, the girls on the basketball team. *Sandoval* supports an *implied* private cause of action when congressional intent is found in the statute’s text and structure, and Breyer’s statements reflect a belief that this intent exists in Title IX. Sullivan was the white person who was not directly discriminated against but who was retaliated against for trying to transfer his property interest to a black person, the direct victim of racial discrimination. Therefore, under Justice Breyer’s analysis there is no basis for

⁴⁸ *Id.*

⁴⁹ See *supra* note 12 at 237.

limiting Title IX's retaliation protection to "direct victims" of discrimination.

According to *Gebser v. Lago Vista Indep. Sch. Dist.*, Title IX was enacted with two principal purposes in mind: "(t)o avoid the use of federal resources to support discriminatory practices" and "to provide individual citizens effective protection against those practices."⁵⁰ The express means of enforcement by the agency (Department of Education and OCR) which dispenses education funds is by termination or suspension of school funding.⁵¹

Oral argument among the Justices became most lively over the effectiveness of this administrative remedy, and the extent to which it should be relied upon as the sole recourse. In the absence of any empirical data, Justice Ginsburg concluded that the OCR was too busy and too understaffed to consider dealing with the Birmingham Board of Education over this matter. She elicited "testimony" from the Assistant Solicitor General that indicated the OCR has never terminated school funds for non-compliance. Justice Scalia took issue with the inference. He thought the absence of resort to the "draconian sanction" of withholding money did not show ineffective enforcement. Instead, he argued the Board's position that it is "overwhelmingly effective" because a school district threatened with enforcement will "hop to it." Justice Souter found the administrative scheme inadequate because the remedy sought by Coach Jackson for retaliation was job re-instatement and back pay, not reducing or eliminating federal funds to Ensley High School. His reasoning leads one to conclude that the Court needs to interpret Title IX so as not to undermine the purpose of the statute.

Justice Scalia was scornful of a decision allowing a plaintiff to circumvent Title IX's administrative scheme and proceed directly to court. Coach Jackson never filed a complaint with the OCR. Title VII claimants, for instance, must first file an action with the Equal Employment Opportunity Commission (EEOC) or risk having their Federal claims barred.⁵² In both Title VII and Title IX claims, the victims allege sex discrimination. After *Cannon*—which was decided before Justice Scalia joined the Court bench—however, Title IX litigants may proceed directly to court.⁵³

There is a sense of unfairness to the Birmingham Board of Education when a complaining coach may bypass the very administrative remedy Congress expressly established in Title IX. A judicial finding of an *implied* cause of action and a right to monetary damages would mean that Coach Jackson would be reinstated and receive compensation for lost wages. The Supreme Court previously ruled that monetary dam-

⁵⁰ 524 U.S. 274, 301 (1988) (quoting *Cannon* at 744-45).

⁵¹ 20 U.S.C. section 1682.

⁵² See 42 U.S.C. section 2000(e) (1991).

⁵³ *Supra* note 24.

ages are available in Title IX actions.⁵⁴ Yet, there is no remedy for the actual victims, to wit, the girls' basketball team, for the Board's discriminatory treatment.

IV. FINAL ARGUMENT BEFORE THE COURT'S ANNOUNCED RULING

This case has significant practical and theoretical meaning for the enforcement of civil rights laws. The Court's decision will determine the scope of *implied* private causes of action under Title IX. By extension, its sister statute Title VI, which bars racial discrimination in federally financed programs, may also be impacted.

The judicial make-up of the Court has not changed since *Sandoval*, which denied private individuals the right to sue to enforce regulations under Title VI. Justices Scalia, Kennedy, Thomas and O'Connor joined Chief Justice Rehnquist in forming the majority in *Sandoval*. Justices Souter, Ginsburg, and Bryer joined Stevens in his dissenting opinion. The one jurist during oral argument in *Jackson* who did not tip her hand was Justice O'Connor. Historically, she has strongly supported the rights of women.⁵⁵

A subtle, but key distinction between *Jackson* and *Sandoval* is that Coach Jackson did not sue privately to enforce *regulations* under Title IX. Justice Scalia acknowledged under *Sandoval* that it is possible to privately sue to enforce the ban on (sex) discrimination so long as the statute's "text and structure" demonstrates congressional intent. Before reaching this question the Court first has to agree that retaliation against a person, because that person has complained about discrimination, is itself discrimination within the meaning of Title IX. The Federal government historically has interpreted Title IX and other civil rights statutes as providing protection against retaliation, although some of the other laws explicitly articulate a private right of action for retaliation.

The effectiveness of the sole administrative remedy provided by Title IX—that of cutting off federal funds to schools—consumed a considerable amount of the Court's oral argument. Notwithstanding Justice Ginsburg's skepticism, the unavoidable result of broadly interpreting the statute, in tandem with granting *implied* rights for an indirect victim,

⁵⁴ *Franklin v. Gwinnett County Public Schools*, 503 U.S. 60 (1962).

⁵⁵ See *Hill, Himmerlmann, and Simpson v. Colorado*, 530 U.S. 703 (2000) (upholding a Colorado statute that made it unlawful within 100 feet of a health care clinic to "knowingly approach" within 8 feet of another person to distribute literature); *Cloer and Pastors for Life, Inc. v. Gynecology Clinic, Inc.*, 528 U.S. 1099 (2000) (denying writ of certiorari where the lower court in Georgia granted an injunction barring pastors opposing abortion from trespassing on the private property of the abortion clinic and interfering with the flow of traffic onto the abortion clinic).

would be to supplant the express remedy terms with *implied* ones. At this point is the Court abrogating the plain language of Title IX and usurping the powers of Congress and the President?

For more than three decades Title IX has expanded athletic and academic opportunities for women and girls by prohibiting sex or gender discrimination in federally funded schools. Title IX makes no distinction as to the “form” of sex discrimination it bans. The language of Title IX supports a definition of sex discrimination to include protecting coaches or teachers who complain about sex discrimination from retaliation. A reading of the statute that would permit a school board to retaliate against those who complain about sex discrimination nullifies its objectives.

There is no precedent that limits Title IX’s scope to “direct victims” of discrimination. Therefore, “indirect” victims who advocate on behalf of their student-athletes are no less a protected party.

The historical context of Title IX’s passage supports the notion that Congress intended to provide for an implied right of retaliation. This right is not found in the enacting language of the enforcement regulations. Consistent with the reasoning in *Cannon*, *Sullivan* and *Sandoval*, the *implied* private right of action for retaliation and its monetary and job relief remedy *is* ascertained in the “text and structure” of the statute.

V. THE SUPREME COURT’S RULING

By a 5-4 vote, Justice Sandra Day O’Connor writing for the majority, ruled that “reporting incidents of discrimination is integral to Title IX enforcement and would be discouraged if retaliation against those who report went unpunished.”⁵⁶ Even though Title IX does not explicitly authorize the filing of private suits by indirect victims of gender discrimination, Coach Jackson is now free to prove that the Birmingham School Board did retaliate against him because he had complained of sex discrimination.

In reaching this holding the Court did not rely upon the Education Department’s retaliation regulations under Title IX. Instead the Court looked to the *text* of Title IX itself and found that retaliation against a person who speaks out against sex discrimination is intentional discrimination “on the basis of sex.”⁵⁷

Additionally, Justice O’Connor pointed out that the school board was put on notice that it could be held liable for retaliation because the Court since *Cannon* has interpreted Title IX’s private cause of action broadly to include diverse forms of intentional sex discrimination.⁵⁸ Thus those

⁵⁶ *Jackson v. Birmingham Board of Education*, 125 S.Ct. 1497, 1508 (2005).

⁵⁷ *Id.* at 1508.

⁵⁸ *Id.* at 1510.

who are an “indirect” victim of discrimination under Title IX are no less a victim than those who are the subject of the original discrimination.

While the majority decision was narrowly decided in a manner consistent with the reasoning found in *Cannon*, *Sullivan* and *Sandoval*, the minority opinion written by Justice Clarence Thomas followed the oral arguments articulated by Justice Scalia. Justice Thomas was joined by Justices Kennedy, Scalia and Chief Justice Rehnquist. The thrust of Justice Thomas’ view was that the majority opinion is at odds with the plain terms of Title IX because the statutory language fails to “evinced a plain intent” to provide an implied private cause of action.⁵⁹ Any retaliatory conduct by the school board against the girls’ coach was not discrimination on the basis of sex, according to the minority decision.⁶⁰ Congress is the body that should address this issue, wrote Justice Thomas, because it has the power to speak unambiguously in imposing conditions on schools that receive federal funding.⁶¹

The majority’s decision is a decisive victory for Coach Jackson. Justice O’Connor made it clear that just because he was not the person who was subject to the original discriminatory treatment based on gender does not mean that he is not protected under Title IX when he speaks out about sex discrimination. Upon remand, Coach Jackson must now prove that the Birmingham School Board retaliated against him because he complained of sex discrimination. This decision also resolves the affirmative conflict in the U.S. Court of Appeals regarding whether an “implied” cause of action based on a retaliation claim exists under Title IX.

⁵⁹ *Id.* at 1511.

⁶⁰ *Id.* at 1512.

⁶¹ *Id.* at 1514.

U.S. GOVERNMENT SCRUTINY OF INTERNATIONAL AIRLINE PASSENGER DATA: ARE EUROPEAN PRIVACY CONCERNS BEING ADEQUATELY ADDRESSED?

by CARTER MANNY*

INTRODUCTION

Two months after the September 11, 2001, terrorist attacks in New York and Washington, the U.S. Congress passed legislation requiring airlines to provide the U.S. government with personal information about each passenger in advance of the passenger's arrival on an international flight.¹ The legislation conflicted with European Union privacy law which restricts transfers of personal data from Europe to any country, like the U.S., whose protection for privacy does not meet European standards.² Unlike the U.S., which has little legal protection for privacy of passenger data other than enforcement of an airline's voluntary privacy commitments, EU law protects all personal data through a harmonized system of national laws administered by regulatory agencies in each Member State. That system is in accordance with the framework established by the EU's general data protection directive.³

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¹ See Aviation and Transportation Security Act, Pub. L. 107-71 § 115 (2001), codified at 49 U.S.C. § 44909(c).

² See Council Directive 95/46, Art. 25. 1995 O.J. (L281) 31 [hereinafter *Data Protection Directive*]

³ See *Id.*

The passenger information which must be transferred to the U.S. includes both data obtained from the passenger's passport, known as Advance Passenger Information (API), and information from the airline's reservation system, known as Passenger Name Record information (PNR.) The reservation system information (PNR) can be extensive and include credit card numbers, telephone numbers, postal addresses, e-mail addresses, prior travel history, and reservations for hotels and rental cars. The information can reveal details of the passenger's personal life including religion and health through statements about dietary restrictions and the need for assistance boarding the aircraft. It can also include information about third parties who are not traveling, like the travel agent who sold the ticket, the office worker who made travel arrangements for the boss, and the father who paid for the ticket for his daughter's visit to the U.S. On the other hand, the information might also reveal that someone who has been linked with a known terrorist is planning to take a flight to the U.S.

Airlines were caught in the middle of the conflict between U.S. law which emphasized American security interests and EU law protecting privacy. If an airline transferred passenger data to the U.S., it risked violating European privacy law. If it refused to make transfers, it risked losing landing rights at U.S. airports. Negotiations between the European Commission and the U.S. Department of Homeland Security sought to resolve the conflict through limits on the types of data transferred and through U.S. commitments to restrict the data's use.

The dialogue took place at a time when some institutions within the U.S. were considering the use of information technology, including data mining and biometrics, as a way of detecting possible terrorism. Data mining was at the heart of a U.S. Defense Department project originally called Total Information Awareness (later renamed Terrorism Information Awareness) which considered mining U.S. government and commercial databases for signs of terrorist activity. Mining of such databases was also a prominent feature of another controversial project for screening U.S. airline passengers, known as CAPPSS II (a revised version of the Computer Assisted Passenger Pre-Screening System), within the Department of Homeland Security (DHS.) Both proposals generated considerable opposition within the U.S. on privacy grounds and were eventually abandoned. Biometrics, consisting of finger scans and iris scans, have also been included as part of a trial project for screening U.S. airline passengers known as Registered Traveler. Biometric data, in the form of finger scans and digital photos, are being collected from many foreign visitors as they enter the U.S. Digital photos, and possibly other biometric data, will probably be stored on computer chips

embedded in many passports in the near future.⁴ The use of information technology to screen and track people have raised privacy concerns in Europe and elsewhere.

Despite those concerns, the European Commission reached a tentative arrangement with the Department of Homeland Security in February 2003 which allowed airlines to transfer passenger data and which contained assurances by the DHS to provide certain safeguards.⁵ Negotiations continued and in May 2004 a more formal agreement, in effect through late 2007, was reached which contained additional commitments by DHS.⁶ As a result, the European Commission, over the opposition of the EU Parliament, made a formal declaration that the DHS commitments met the requirements of EU law.⁷ That declaration is binding on the regulatory agencies, known as data protection authorities, in each EU Member State who have enforcement powers under national data protection laws. Hence the transfers of passenger data to the U.S. could continue without the threat of enforcement actions. The May 2004 agreement is controversial in Europe and is viewed by many as being politically expedient rather than based upon sound legal reasoning. It has been challenged by the European Parliament in the European Court of Justice.

This article examines the events before and after the 2004 Agreement and the extent to which it is protecting the privacy of data of passengers taking flights from Europe to the U.S. The commitments made by DHS are compared with privacy protection in systems which scrutinize data of passengers arriving in Australia, Canada and the proposed system for the EU. The article also considers the privacy implications of U.S. screening systems, both the trial program known as Registered Traveler, and the proposed system known as Secure Flight.

⁴ See *Administration Announces Plans to Begin Fingerprinting Visitors From Allied Countries*, 3 PRIVACY & SECURITY L. REP. (BNA) 428 (2004).

⁵ See European Commission/US Customs Talks on PNR Transmission, Brussels, 17/18 February Joint Statement, available at <http://www.statewatch.org/news/2003/feb/11usdata2.htm> (last visited July 9, 2004).

⁶ See Undertakings of the Department of Homeland Security Bureau of Customs and Border Protection Regarding the Handling of Passenger Name Record Data, 69 Fed. Reg. 41543 (notice)(2004).

⁷ See Commission Decision of 14 May 2004 on the adequate protection of personal data contained in the Passenger Name Record of air passengers transferred to the United States' Bureau of Customs and Border Protection, 2004 O.J. (L235)11.

DIFFERENT SYSTEMS FOR PROTECTING PRIVACY IN THE EU AND U.S.

European Privacy Protection

In Europe, privacy is considered to be a fundamental human right which should be protected by the government.⁸ The general legal framework of European privacy law is set forth in the Data Protection Directive⁹ requiring the Member States to have conforming national laws applying to all databases holding personal information, both governmental and private. Most of the Directive's provisions are for the benefit of the person to whom the data relate, known as the "data subject," and protect "personal data" which is broadly defined to include any information which could be linked to a natural person.¹⁰

There are limits on collection, use and retention of personal data. The Directive imposes a purpose limitation requiring that data collected for one specified purpose should not be used for another purpose.¹¹ It also contains the principle of proportionality requiring that data be adequate, relevant and not excessive in relation to the purpose for which they were collected.¹² Data quality is regulated by a provision requiring data to be accurate and up to date.¹³ Data retention is limited by a provision requiring data to be kept no longer than is necessary for the purposes for which the data were collected.¹⁴ There are limits on the collection or processing of sensitive data, defined as personal data dealing with racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, health or sex life.¹⁵ The Directive contains a notice provision requiring that the data subject be informed of the purposes for which the data will be processed, the parties to whom data will be transferred and the right to gain access to the information and

⁸ See, e.g., Council of Europe Convention For the Protection of Human Rights and Fundamental Freedoms, Art. 8, reprinted in Marc Rotenberg, THE PRIVACY LAW SOURCEBOOK 2003, 322; Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data, Eur. T.S. No. 108 (Jan. 28, 1981); Council Directive 95/46, 1995 O.J. (L281) 31; Charter of Fundamental Rights of the European Union, Art. 8, reprinted in Marc Rotenberg, THE PRIVACY LAW SOURCEBOOK 2003, 436; and the proposed Treaty Establishing a Constitution for Europe, Arts. II-67 & II-68, 2004 O.J. (C310) 1.

⁹ *Data Protection Directive*, supra note 2.

¹⁰ *Id.* at Art. 2(a).

¹¹ *Id.* at Art. 6(1)(b).

¹² *Id.* at Art.6(1)(c).

¹³ *Id.* at Art. 6(1)(d).

¹⁴ *Id.* at Art. 6(1)(e).

¹⁵ *Id.* at Art. 8. However, sensitive data may be processed under exceptions covering employment or health care purposes, or generally when the data subject gives consent

correct any errors.¹⁶ Data subjects have a private judicial right of action for compensation in the event of a violation, in addition to administrative remedies.¹⁷ The Directive also prohibits the transfer of personal data outside the EU unless the European Commission is satisfied that the destination country provides “adequate” privacy protection, or unless one of a limited number of exceptions applies.¹⁸

Europe also has sector specific privacy law. Airline passenger data is covered by one such law, the Computerized Reservations Systems Regulation, requiring the data subject’s consent before personal data may be made available to “others not involved with the transaction.”¹⁹

U.S. Privacy Protection

U.S. privacy law is a patchwork of largely sector-specific state and federal statutes, regulations and constitutional principles. Although a detailed examination of all of these provisions is beyond the scope of this article, a summary of federal statutes may be useful in making a comparison with the system in Europe.

The federal Privacy Act,²⁰ which applies only to data held by the federal government, is similar in some respects to the European system. The similarities include a purpose limitation (providing that information gathered for one purpose should not be used for another without the data subject’s consent,) a data quality principle (requiring information to be accurate, relevant and timely,) and rights of access and rectification. The Privacy Act prohibits disclosure of the data without the data subject’s consent except when done pursuant to exceptions for law enforcement, for court orders and for compelling circumstances involving the data subject’s health or safety. However, because the Privacy Act does not confer rights on non-resident aliens, it would not be helpful to most Europeans who might be concerned about their passenger data in the hands of the U.S. federal government. Europeans, however, might be able to gain access to their data by filing a Freedom of Information Act request.²¹

¹⁶ *Id.* at Arts. 10 & 12

¹⁷ *Id.* at Arts. 22 & 23

¹⁸ *Id.* at Art. 25

¹⁹ Council Regulation 2299/89 on a code of conduct for computerized reservation systems, 1989 O.J. (L220) 1 [hereinafter *Computerized Reservations Systems Regulation*].

²⁰ 5 U.S.C. § 552a (2000)

²¹ 5 U.S.C. §552 (2000). The Freedom of Information Act contains exceptions, some of which restrict disclosure of information held for certain law enforcement purposes. 5 U.S.C. §552a(b)(7). Disclosure is not required, for example, when it “could reasonably be expected to interfere with enforcement proceedings,” or when it would reveal techniques for investigations or prosecutions that could reasonably be expected to risk circumvention of the law. 5 U.S.C. §552a(b)(7)(A) and (E).

Other federal privacy statutes which apply to the private sector are targeted at specific industries. These include the credit reporting industry,²² health care organizations,²³ financial services companies,²⁴ the cable television industry,²⁵ educational institutions²⁶ and video rental businesses.²⁷ Although airline reservations systems are not generally required by law to follow any statutory privacy standards, a breach of an airline's privacy policy can be pursued as an unfair trade practice pursuant to Section 411(a) of the Federal Aviation Act of 1958.²⁸

EU—U.S. ACTIVITIES LEADING UP TO THE AGREEMENT OF MAY 2004

U.S. Legal Requirements for Data of International Air Passengers

The U.S. government is interested in two categories of data for passengers arriving on international flights. The first category, known as Passenger Name Record (PNR) information, is the data in the airline reservation system database. Although it is possible for each passenger's record to contain as many as 60 fields or categories of information, in most instances about 10 to 15 fields will contain data.²⁹ The PNR information in the reservation system can include not only the passenger's name, postal address, e-mail address, and credit card number, but a broad range of other travel information including hotel and car rental reservations, meal preferences and information about the passenger's disabilities.³⁰ There can also be information about prior travel including other flights taken, "no show" history for prior air travel reservations, and credit card numbers used to pay for past trips. U.S. law broadly defines passenger name record information to include any information

²² Fair Credit Reporting Act, 15 U.S.C. §§ 1681-1681t (2000).

²³ Privacy of Individually Identifiable Health Information, 45 C.F.R. §§ 164.102 – 164.534, 164.104 (2002) (known as the HIPAA Privacy Regulations).

²⁴ Gramm-Leach-Bliley Act, 15 U.S.C. §§ 6801-6810 (2004).

²⁵ Cable Communications Policy Act, 47 U.S.C. § 551(a) (2000).

²⁶ Family Educational Rights and Privacy Act, 20 U.S.C. § 1232g (2000).

²⁷ Video Privacy Protection Act, 18 U.S.C. § 2710(e) (2000).

²⁸ 49 U.S.C. § 41712(a) (2000).

²⁹ See, e.g., Communication From the Commission to the Council and the Parliament: Transfer of Air Passenger Name Record (PNR) Data: A Global EU Approach, COM(2003)826 final.

³⁰ For a detailed explanation about passenger name record data, see, e.g., Edward Hasbrouck, *What's in a Passenger Name Record (PNR)?*, available at <http://www.hasbrouck.org/articles/PNR.html> (last visited July 5, 2004). Most airlines do not host their own databases but use one of four major worldwide Computer Reservation Systems: Sabre, Galileo/Apollo, Amadeus and Worldspan. Of the four, only Amadeus is located in Europe. The others are located in the U.S. Only Amadeus is controlled by airlines. The others are independently owned. *Id.*

in an airline reservation system that sets forth the identity and travel plans of the passenger.³¹

The second category of passenger data, known generally as Advance Passenger Information (API), is narrower than PNR data and consists of the person's name, date of birth, nationality, gender, the country issuing the passport or visa, and the number on each document. This information is in the printed portion of the passport or visa, and is often obtained by scanning these documents at the airline check-in counter at the departing airport. In addition, API includes the passenger's flight number, departure airport and arrival airport.

Enacted two months following the terrorist attacks of September 11, 2001, the Aviation and Transportation Security Act requires that an airline operating international flights into the U.S. make passenger name record information available to the Bureau of Customs and Border Protection ("CBP") upon request.³² The statute has no limit on how much of the PNR data must be provided or on how early a request for data can be made, so the CBP could obtain data weeks prior to a flight.

Because the PNR data for a passenger can be extensive, the effect of the statute is to enable the Bureau of Customs and Border Protection to gain access to a significant amount of personal information some of which may not relate to the flight the passenger is about to take. Moreover, the data may relate to someone who has made a reservation but cancels the trip and never takes the flight. The potential transfer of such a broad range of personal information is problematic under the European principle of proportionality, which prohibits the excessive collection of data.

The statute also requires the airline to collect and transmit advance passenger data (API) at the time of a flight's departure. Prior to 2001, many airlines voluntarily collected and transmitted this data to U.S. authorities.³³ The Aviation and Transportation Security Act³⁴ (enacted in November 2001) and the Enhanced Border Security and Visa Entry

³¹ See Passenger Name Record Information Required for Passengers on Flights in Foreign Air Transportation to or From the United States, 67 Fed. Reg. 42710, (interim rule)(2002), codified at 19 C.F.R. § 122.49b(b) (2004).

³² See Aviation and Transportation Security Act, Pub. L. 107-71 § 115 (2001), codified at 49 USC § 44909(c)(3). The statute uses the phrase "Customs Service," which was the predecessor to the Bureau of Customs and Border Protection.

³³ See *U.S. Passenger List (PAXLST) Message Implementation Guideline, Advance Passenger Information for Airlines* 1, 9, available at http://www.cpb.gov/linkhandler/cgov/travel/inspections_carriers_facilities/apis/en_edifact_guide.ctt/un_edifact_guide.doc (last visited Mar. 30, 2005) (stating that the API was voluntarily provided by airlines to CBP prior to 2001 and that the collection system in 1988.)

³⁴ See Aviation and Transportation Security Act, Pub. L. 107-71 § 115 (2001), codified at 49 USC § 44909(c)(2).

Reform Act of 2002³⁵ require the transfer of a passenger and crew manifest for each foreign flight into the U.S. Manifest information is defined to include each person's name, date of birth, citizenship, gender, passport information and visa information.³⁶ This is the same sort of information that would be available to the CBP officer at the destination airport when deciding whether to admit the person to the U.S. Under the Aviation and Transportation and Security Act, the manifest information must be transmitted electronically to the CBP no later than 15 minutes after the plane has departed from the foreign airport.³⁷ Accordingly, the manifest information typically provides the Bureau of Customs and Border Protection several hours advanced notice of the identities of the people who will be disembarking at the U.S. airport, and does not raise the same privacy concerns as PNR because it is the same information which the CPB officer could obtain from the passenger's passport, visa and airline ticket in the airport arrivals hall.

EU Legal Requirements for International Transfers of Personal Data

EU law prohibits a transfer of personal data outside the European Union unless the European Commission has determined that there is "adequate" privacy protection in the destination country or unless one of a limited number of exceptions applies.³⁸ The two most realistic grounds for lawful transfers of passenger data are (1) for the airline to obtain each passenger's "unambiguous consent" to the transfer, or (2) for the U.S. Government to provide sufficient safeguards to enable the European Commission to conclude that "adequate" privacy protection exists.

Although there was some support for the passenger consent option, it was ultimately rejected by the European Commission because it would have presented each passenger with the potentially coercive choice of either agreeing to a transfer of all the data that the U.S. Bureau of Customs and Border Protection wanted with no limit on its use, or canceling the passenger's air travel plans. "Consent" under these

³⁵ See Enhanced Border Security and Visa Entry Reform Act of 2002, Pub. L. 107-173 § 402(a) (2002), codified at 8 U.S.C. § 1221(a). The statute also requires a departure manifest. 8 U.S.C. § 1221(b).

³⁶ See Passenger and Crew Manifests required for Passenger Flights in Foreign Air Transportation to the United States, 66 Fed. Reg. 67482 (interim rule)(2001), codified at 19 C.F.R. § 122.49a(b)(2) (2004). See also 8 U.S.C. § 1221(c).

³⁷ *Id.* Departure from the foreign airport is defined as the time when the aircraft's "wheels are up" after takeoff. *Id.* However, under the Enhanced Border Security and Visa Entry Reform Act of 2002, the manifest need only be provided prior to an aircraft or vessel's arrival at the U.S. port. 8 U.S.C. § 1221(a).

³⁸ *Data Protection Directive, supra* note 2, Arts. 25 & 26 (Article 25 contains the general prohibition on international data transfers and Article 26 contains exceptions which permit transfers.)

circumstances would be inconsistent with the European view that to be valid, consent must be “freely given.”³⁹ The European Commission rejected total reliance on this alternative, because it would have afforded European citizens no privacy protection, and instead chose to pursue the second alternative of negotiating sufficient commitments from the U.S. to justify a determination that privacy protection was “adequate.”⁴⁰ There also was a precedent for a negotiated solution with the U.S. In July 2000 the U.S. Commerce Department and the Commission reached the Safe Harbor Agreement permitting transfers of data to U.S. businesses making specified privacy commitments, thus providing the basis for the Commission to conclude that privacy protection for the data would be adequate in the U.S.⁴¹

*Existing and Proposed U.S. Passenger Screening Systems
Prior to May 2004*

CAPPS I:

Computerized screening of U.S. airline passengers began in 1998 with the adoption of the Computer Assisted Passenger Pre-Screening System (CAPPS) in response to recommendations made by the U.S. Commission on Aviation Safety and Security, which was formed after the crash of TWA flight 800 off of Long Island, New York, in the summer of 1996.⁴² The original CAPPS system consisted of the application of a secret screening algorithm to a passenger’s reservation data at the time the passenger checks in at the airport. On September 11, 2001, the system did flag several of the terrorist hijackers but the only consequences at that time were to screen the passenger’s checked bags for explosives and delay loading them onto the aircraft until after the passenger had boarded the plane.⁴³ After September 11, 2001, a list of “no fly” and “watch list” names was added to the system. People whose names are

³⁹ See, e.g., *Opinion 6/2002 on transmission of Passenger Manifest Information and other data from Airlines to the United States* 6, available at http://europa.eu.int/comm/internal_market/privacy/docs/wpdocs/2002/wp66_en.pdf (last visited June 21, 2004); Maria Veronica Perez Asinari & Yves Poullet, Public Security Versus Data Privacy, the Airline Passenger Data Disclosure Case, 20 *COMPUTER L. & SECURITY* 98, 105 (2004).

⁴⁰ See Speech by Frits Bolkestein, Internal Market Commissioner, to European Parliament Committees on Citizens’ Freedoms and Rights, Justice and Home Affairs and Legal Affairs and the Internal Market on December 16, 2003, Speech/03/613, available at http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action (last visited Jan. 30, 2004).

⁴¹ See Issuance of Safe Harbor Principles and Transmission to European Commission, 65 *Fed. Reg.* 45666 (2000).

⁴² See, e.g., Richard A. Clarke, *AGAINST ALL ENEMIES: INSIDE AMERICA’S WAR ON TERROR*, 123.

⁴³ See THE 9/11 COMMISSION REPORT 1 – 4, 392

on the “no fly” list are prohibited from boarding unless federal law enforcement authorities, usually the FBI, give permission on a case by case basis.⁴⁴ People whose names are on the “watch list” are subjected to extra scrutiny before being permitted to board. CAPPS is administered by each airline through its computer reservation system.

A replacement screening system, CAPPS II, which was proposed after September 11, was terminated by the U. S. Department of Homeland Security during the summer of 2004 because of privacy concerns.⁴⁵ CAPPS II would have applied data mining technology to analyze data in commercial and government intelligence databases as well as information in an airline’s reservation system. It would have required airlines to obtain additional information from a passenger making a reservation (date of birth, home address and home telephone number) not previously required. After authenticating a passenger’s identity, the system would determine whether the traveler posed a terrorist threat or was a fugitive named in a state or federal warrant for a crime of violence. The system would then assign the passenger to one of three categories of passenger: (1) no risk, (2) unknown or elevated risk, and (3) high risk. The passenger’s risk assessment results would be printed in an encoded message on the boarding pass, or be transmitted the airport security checkpoint, to indicate the appropriate level of screening by Transportation Security Administration employees.⁴⁶

Controversies Surrounding CAPPS II and Biometric Data

CAPPS II was highly controversial within the U.S., not only for its use of commercial databases, but for the many instances in which airlines submitted passenger data to government agencies and government contractors for testing of the proposed screening technology. Northwest Airlines was the first to hand over data for testing in 2001.⁴⁷ Others included JetBlue,⁴⁸ American Airlines,⁴⁹ Delta, Continental, America

⁴⁴ See Edward Hasbrouck, *Total Travel Information Awareness*, available at <http://www.Hasbrouck.org/articles/travelprivacy.html> (last visited July 11, 2004)

⁴⁵ See, e.g., *Secure Flight Development and Testing Under Way, but Risks Should Be Managed as System is Further Developed 2*, available at <http://www.gao.gov/new.items/d05356.pdf> (last visited Mar. 29, 2005)

⁴⁶ See U.S. Transportation Security Administration, *CAPPS II at a Glance*, available at <http://www.tsa.gov/public/display?theme=5&content=0900051980088d91&print=yes> (last visited Mar. 18, 2004)

⁴⁷ See *NWA defends Customer Data Disclosure to NASA Research Center After 9/11 Attacks*, 3 *Privacy & Security L. Rep.* (BNA) 278 (2004).

⁴⁸ See *JetBlue Faces Class Action, DOT Scrutiny Over Customer Data Sent to DOD Contractor*, 2 *Privacy & Security L. Rep.* (BNA) 1089 (2003).

⁴⁹ See *American Airlines Approved Disclosure Of Passenger Records for Aviation Security*, 3 *Privacy & Security L. Rep.* (BNA) 459 (2004).

West and Frontier Airlines.⁵⁰ CAPPS II was also criticized by the U.S. General Accountability Office in a report released in February 2004 which found problems with accuracy of test data, lack of security in the computer system, privacy problems, lack of international cooperation needed to obtain passenger data, dangers posed by potential expansion of the program beyond its original purpose, and possible circumvention of the system by a passenger using identity theft to travel under someone else's name.⁵¹ CAPPS II was also controversial in Europe because of concerns that PNR data of passengers traveling from Europe to the U.S. would be used both in its testing and any system which was adopted by the U.S.⁵²

Europeans were also uneasy about legal requirements that foreign visitors provide biometric data when entering the U.S. Beginning in January 2004 the program known as U.S.-VISIT began requiring visa applicants to submit to scans of both index fingers and have a digital photo taken so the information can be entered into a State Department database. At the U.S. border, the visa is scanned to call up the visitor's data and identity is confirmed by comparing new finger scans and a digital photo taken at the border, with the finger scans and photo in the database. The visitor's name is then compared with a list of names of terrorists and wanted criminals. Beginning in September 2004, visitors from 27 countries whose citizens are not required to obtain visas, including most of Western Europe, have been required to submit to finger scans and digital photos when entering the U.S.⁵³

Beginning in October 2005, biometric identifiers are scheduled to be required by U.S. law in passports from visa waiver countries.⁵⁴ The original implementation deadline of October 2004 was postponed to

⁵⁰ See *Passenger Data Given to TSA Contractors For CAPPS II Project*, Top TSA Official Says, 3 Privacy & Security L. Rep. (BNA) 751 (2004).

⁵¹ See United States General Accounting Office, *Aviation Security: Computer Assisted Passenger Prescreening System Faces Significant Implementation Challenges*, available at <http://www.epic.org/privacy/airtravel/gao-capps-rpt.pdf> (last visited March 7, 2004)

⁵² See Opinion 2/2004 on the Adequate Protection of Personal Data Contained in the PNR of Air Passengers to Be Transferred to the United States' Bureau of Customs and Border Protection (CBP), available at http://europa.us.Int/comm./internal_market/privacy/docs/wpdocs/2004/wp87_en.pdf (last visited June 10, 2004).

⁵³ See *Administration Announces Plans to Begin Fingerprinting Visitors From Allied Countries*, 3 PRIVACY & SECURITY L. REP. (BNA) 428 (2004)

⁵⁴ See Enhanced Border Security and Visa Entry Reform Act of 2002, Pub. L. 107-173, § 303, codified at 8 U.S.C. § 1732. The statute requires that passports incorporate "biometric and document authentication identifiers that comply with applicable biometric and document identifying standards established by the International Civil Aviation Organization." *Id.* at § 303(c)(3). As of March, 2005, such standards have not been adopted, so it is an open question whether digital photos, finger scans, iris scans or other type of biometric identifiers are required.

October 2005 in part because of the need for countries to comply with International Civil Aviation Organization technical standards for biometric passports and to allow time for the U.S. Department of Homeland Security to install equipment to read the documents.⁵⁵

Passports with biometric identifiers have been controversial in Europe. Although the Council of Justice and Home Affairs Ministers agreed in June 2004 that Member States should include a digital photo, and possibly fingerprints, on a computer chip embedded in each passport,⁵⁶ some members of the European Parliament felt that the technology was flawed and objected to the issuance of such passports in Europe when the U.S. had not yet adopted biometric passports for U.S. citizens.⁵⁷ However, the U.S. State Department is moving forward with the issuance of biometric passports in 2005,⁵⁸ as are the EU Member States of Belgium, Germany, Austria, Finland, Sweden and Luxembourg. Because the other Member States are not expected to be ready to issue biometric passports in 2005, EU Justice Commissioner Franco Frattini has asked the U.S. to postpone its October 2005 deadline for biometric identifiers in passports from visa waiver countries until August 2006.⁵⁹

*Actions by EU Institutions Leading Up to the May 2004
Agreement on PNR*

European Union institutions were divided over how to handle U.S. demands for transfers of airline passenger data. Although the Internal Market Directorate General within the European Commission had most of the authority for deciding whether to find U.S. Department of Homeland Security promises as resulting in “adequate” privacy protection, other organizations needed to be consulted before that decision was made. These include the Article 29 Working Party, which consists of the data protection commissioners from the EU Member States, and the European Parliament. The European Commission favored a pragmatic approach while the Article 29 Working Party of data protection commissioners and a majority of the members of the European Parliament

⁵⁵ See *Id.* See also *Biometric Passport Delay Signed Into Law; To Fill Gap, Visitors Face US-VISIT System*, 3 PRIVACY & SECURITY L. REP. (BNA) 950 (2004).

⁵⁶ See *EU Ministers Agree on Biometric Passport; Danish Member of Parliament Blasts Deal*, 3 PRIVACY & SECURITY L. REP. (BNA) 687 (2004).

⁵⁷ *Id.*

⁵⁸ See, e.g., *Bush Administration Has Ignored Biometric Passport Concerns*, *ACLU Says*, 3 PRIVACY & SECURITY L. REP. (BNA) 1343 (2004).

⁵⁹ See EU Asks US to Extend Deadline for “Biometric” Passports, available at <http://www.statewatch.org/news/2005/mar/16eu-bio-passports.htm> (last visited Mar. 31, 2005).

were adhering more closely to privacy principles embodied in the Data Protection Directive.

The Commission's pragmatic approach was evident when in February 2003, shortly before the transfers of passenger data were scheduled to begin, it issued a joint statement with the U.S. Customs Service (the predecessor of the Bureau of Customs and Border Protection which is within the U.S. Department of Homeland Security). The issuance of the Joint Statement made clear that the Commission's strategy was to try to obtain sufficient privacy assurances to enable it to make an "adequacy" determination under the Data Protection Directive.⁶⁰ The Joint Statement on PNR contained a recital of mutual understandings most of which dealt with limits on use of the data and other safeguards. Both the Article 29 Working Party of Data Protection Commissioners⁶¹ and the European Parliament⁶² were critical of the Joint Statement.

Despite continued misgivings expressed by the Article 29 Working Party⁶³ and Parliament⁶⁴ the Commission announced in December 2003 that it had reached an agreement with the U.S. Department of Homeland Security that would permit the Commission to make an adequacy determination.⁶⁵ Neither the Article 29 Working Party nor Parliament was satisfied with the agreement. Parliament voted in opposition to the agreement several times in March, April and May.

⁶⁰ See European Commission/US Customs Talks on PNR Transmission, Brussels, 17/18 February Joint Statement, available at <http://www.statewatch.org/news/2003/feb/11usdata2.htm> (last visited July 9, 2004) [hereinafter *Joint Statement on PNR*].

⁶¹ See Letter from Stefano Rodota, Chairman of the Article 29 Working Party, to Jorge Salvador Hernandez Mollar, Chairman of the European Parliament's Committee on Citizens' Freedoms, Rights and Justice (LIBE), dated March 3, 2003, available at <http://www.statewatch.org/news/2003/mar/art29ch.pdf> (last visited July 9, 2004).

⁶² See European Parliament resolution on transfer of personal data by airlines in the case of transatlantic flights, P5_TA(2003)0097, B5-0187/2003. See also *European Parliament Demands Suspension of Deal on Data on Transatlantic Travelers*, 2 PRIVACY & SECURITY L. REP. (BNA) 256 (2003); *Massive Majority in European Parliament against deal with US on access to passenger data*, available at <http://www.statewatch.org/news/2003/mar/12epvote.htm> (last visited June 27, 2004).

⁶³ See Opinion 4/2003 on the Level of Protection Ensured in the US for the Transfer of Passengers' Data, available at http://europa.eu.int/comm/internal_market/privacy/docs/wpdocs/2003/wp78_en.pdf (last visited June 21, 2004).

⁶⁴ See, e.g., *U.S., EU set End of Year Deadline to Resolve Airline Passenger Data Issues* 2 PRIVACY & SECURITY L. REP. (BNA) 1097 (2003). See also European Parliament resolution on transfer of personal data by airlines in the case of transatlantic flights: state of negotiations with the USA, P5_TA(2003)0429, B5-0411/2003.

⁶⁵ Communication From the Commission to the Council and the Parliament: Transfer of Air Passenger Name Record (PNR) Data: A Global EU Approach, COM(2003)826 final.

Ignoring continued resistance from Parliament, the European Commission made a formal adequacy determination on May 14,⁶⁶ following the adoption of “undertakings” by the U.S. Department of Homeland Security Bureau of Customs and Border Protection several days later.⁶⁷ The Council of Ministers of the European Union then issued its decision approving an agreement on passenger data between the EU and the U.S.⁶⁸ The agreement itself was signed in Washington on May 28, 2004.⁶⁹

Two months later, Parliament began proceedings before the European Court of Justice to annul both the Commission’s adequacy finding and the Council’s agreement with the Department of Homeland Security. Parliament’s legal action against the Commission alleged that the adequacy determination was invalid because the Commission misused its powers, because the agreement breached the purpose limitation and principle of proportionality set forth in the Data Protection Directive, and because the agreement breached the right to protection of personal data set forth in Article 8 of the European Convention for the Protection of Human Rights and Fundamental Freedoms.⁷⁰ Parliament’s legal action against the Council alleged that the Council lacked proper authority to enter the agreement without assent of Parliament and contained additional allegations similar to those in the lawsuit against the Commission.⁷¹ As of March, 2005, the case was still pending.

⁶⁶ See Commission Decision of 14 May 2004 on the adequate protection of personal data contained in the Passenger Name Record of air passengers transferred to the United States’ Bureau of Customs and Border Protection, 2004 O.J. (L235)11.

⁶⁷ See Undertakings of the Department of Homeland Security Bureau of Customs and Border Protection Regarding the Handling of Passenger Name Record Data, 69 Fed. Reg. 41543 (notice)(2004) [hereinafter *DHS Undertakings*].

⁶⁸ See Council Decision of 17 May 2004 on the conclusion of an Agreement between the European Community and the United States of America on the processing and transfer of PNR data by Air Carriers to the United States department of Homeland security, Bureau of Customs and Border Protection, 2004 O.J. (L183) 83.

⁶⁹ See, e.g., *U.S., EU Officials Sign Agreement To Let DHS Collect Passenger Data*, 3 PRIVACY & SECURITY L. REP. (BNA) 661 (2004).

⁷⁰ See Case C318/04, *Parliament v. Commission*, available at <http://curia.eu.int/jurisp/cgi-bin/gettext.pl?land=en&num=79959173C19040318&doc=T> (last visited Apr. 3, 2005).

⁷¹ See Case C317/04, *Parliament v. Council*, available at <http://curia.eu.int/jurisp/cgi-bin/gettext.pl?land=en&num=79959173C19040317&doc=T> (last visited Mar. 25, 2005).

EVALUATION OF THE MAY 2004 EU—U.S. PASSENGER DATA AGREEMENT

How “Adequate” is the Privacy Protection?

The DHS Undertakings have been evaluated by the Article 29 Working Party in 2004⁷² and are also the subject of the first annual joint review by the Commission and DHS expected to be released in the spring of 2005.⁷³ The joint review should provide insight into how well privacy is being protected in practice.

The Article 29 Working Party has identified several deficiencies based upon principles under the Data Protection Directive. One problem is the purpose limitation.⁷⁴ The DHS Undertakings permit the data to be used with respect to crimes that are unrelated to terrorism under the phrase “other serious crimes, including organized crime, that are transnational in nature.”⁷⁵ The vagueness of this phrase opens up the possibility of “mission creep” in the U.S. system, which could result in subjecting passengers to a general criminal background evaluation. The focus on other crimes might also have the effect of distracting U.S. officials from antiterrorism efforts.

Another problem is that the DHS Undertakings provide for the collection of too much data contrary to the proportionality principle which provides that data should be “adequate, relevant and not excessive.”⁷⁶ The Article 29 Working Party has objected to the inclusion of many of the data elements covered in the DHS Undertakings. These include so-called open data fields (labeled as “general remarks”, “OSI” [other service related information] and “SSI/SSR” [special service request.]) These fields could contain things entered by a travel agent which reveal details of a passenger’s personal life like religion through a request for a special meal, or a health condition through a request for assistance boarding the aircraft. These are examples of sensitive data afforded

⁷² See Opinion 2/2004 on the Adequate Protection of Personal Data Contained in the PNR of Air Passengers to Be Transferred to the United States’ Bureau of Customs and Border Protection (CBP), available at http://europa.us.int/comm./internal_market/privacy/docs/wpdocs/2004/wp87_en.pdf (last visited June 10, 2004).

⁷³ See Europarl Debate on PNR and Data Retention, available at <http://www.edri.org/edrigram/number3.5/retention> (last visited Mar. 25, 2005)(reporting speech by EU Justice Commissioner Franco Frattini before the European Parliament on March 9, 2005, that a joint evaluation of the transfer of passenger data to the U.S. would be issued within a month and a half).

⁷⁴ *Data Protection Directive*, supra note 2, Art. 6(1)(b).

⁷⁵ See Undertakings of the Department of Homeland Security Bureau of Customs and Border Protection Regarding the Handling of Passenger Name Record Data (3), 69 Fed. Reg. 41543 (notice)(2004).

⁷⁶ *Data Protection Directive*, supra note 2, Art. 6(1)(c).

special privacy protection under the Data Protection Directive.⁷⁷ The DHS Undertakings include assurances that it will install an automated system which filters and deletes such data, will not use such data and will manually delete any such data in PNR information transferred to other government authorities. The spring 2005 joint review might reveal the extent to which these assurances are being implemented. Open fields might also include subjective remarks entered by a travel agent about the passenger's personality like "difficult passenger, changes mind frequently" which are derogatory but irrelevant for antiterrorism purposes.⁷⁸

Retention of data is another issue. The DHS Undertakings generally provide that data will be available for online access by authorized users for seven days and remain available for a limited set of users for a period of three and a half years from the date of collection. While there is a general commitment to destroy data at the end of the three and a half year period, an exception provides that any PNR data which has been manually accessed will be retained for a period of eight years before it is destroyed. Any data linked to enforcement is exempt from these limitations and may be retained until the enforcement record is archived. The spring 2005 joint review might reveal the extent to which data is being manually accessed. If large amounts of data fall into that category and become subject to the eight year retention period, that would seem contrary to the principle that data be retained no longer than necessary.⁷⁹

The Article 29 Working Party has also objected to the lack of restrictions on the number of agencies to which the U.S. Government could transfer the data.⁸⁰ The DHS Undertakings allow transfers to governmental authorities with antiterrorism or law enforcement functions inside and outside the U.S. on a case-by-case basis for the purposes of combating terrorism and other serious crimes, including organized crime, that are transnational in nature. The vagueness of this provision opens up the possibility that a passenger's data could go to all sorts of governmental institutions around the world. The spring 2005 joint review might reveal the extent to which data is being transferred.

⁷⁷ Sensitive data includes data revealing race, ethnicity, religion, political opinions, trade union membership and data concerning health or sex life. *Data Protection Directive*, *supra* note 2, Art. 8.

⁷⁸ Edward Hasbrouck, *What's In a Passenger Name Record (PNR)?*, available at <http://www.hasbrouck.org/articles/PNR.html> (last visited July 5, 2004) (stating that PNR can include personal notes intended for the internal use of the travel agency, e.g. "difficult customer – always changing his mind").

⁷⁹ *Data Protection Directive*, *supra* note 2, Art. 6(1)(e).

⁸⁰ *Id.*

Another problem with the DHS Undertakings is the lack of an independent redress mechanism outside the DHS for passenger complaints, especially considering that the Undertakings stated that they created no private right of action. The internal redress mechanism allows passengers and European data protection authorities to file complaints with DHS's chief privacy officer. The spring 2005 joint review might reveal the extent to which complaints are being made and how effectively they are being resolved. There are also questions whether the DHS Undertakings are legally binding.⁸¹

The Article 29 Working Party has suggested the creation of an independent redress mechanism similar to the panels in Frequently Asked Question 5 (FAQ 5) of the Safe Harbor Agreement involving U.S. organizations which have made privacy commitments in order to qualify to receive personal data from Europe. Under FAQ 5 there is a dispute resolution mechanism using an informal panel of representatives from the European data protection authorities which can authorize payment of compensation to someone harmed by an organization's breach of its privacy commitments.⁸² Such a system could help promote enforcement of the DHS Undertakings by providing an independent dispute resolution process with the capacity to communicate in all the languages used in the EU.

The Working Party expressed concern about the quality of U.S. data because some of the security-related cancellations of flights from Europe to the U.S. in late December 2003 resulted from mistakes in matching names of passengers with names of suspected terrorists.⁸³ Data quality issues have also surfaced in connection with "no fly" and "selectee" lists used to screen passengers in the U.S. People detained on U.S. domestic flights have included members of the U.S. Senate and House of Representatives.⁸⁴ On the other hand, people on watch lists have been

⁸¹ See Opinion 2/2004 on the Adequate Protection of Personal Data Contained in the PNR of Air Passengers to Be Transferred to the United States' Bureau of Customs and Border Protection (CBP), available at [http:// europa. us. Int/ comm./ internal_market/ privacy/ docs/ wpdocs/ 2004/ wp87_en. pdf](http://europa.us.Int/comm./internal_market/privacy/docs/wpdocs/2004/wp87_en.pdf) (last visited June 10, 2004).

⁸² See *Frequently Asked Questions (FAQs) FAQ 5 – The Role of Data Protection Authorities*, Issuance of Safe Harbor Principles and Transmission to European Commission, 65 Fed. Reg. 45,666 (2000).

⁸³ See, e.g., U.S. "Terror" List Still Lacking, WALL ST. J., Jan. 2, 2004, A4 (Reporting that French officials said that cancellations of Air France flights in December 2003 had been caused by passengers having names similar to those on an FBI list. One passenger who had a name similar to the leader of a Tunisian terrorist group turned out to be a five year old child. Other passengers flagged by the U.S. list turned out to be a Welsh insurance agent and an elderly Chinese woman who once ran a Paris restaurant.)

⁸⁴ See, e.g., *House Committee Approves Bills for Aviation, Public Transit Security*, 3 PRIVACY & SECURITY L. (BNA) 1131 (2004)(noting that Senator Edward Kennedy of Massachusetts and Representative Don Young of Alaska have been stopped by airport security because of the similarity of their names to names on the "no-fly" list).

allow to board flights in Europe bound for the U.S., causing aircraft to be diverted to Bangor, Maine, so those people could be removed from the planes.⁸⁵ Provisions in the Intelligence Reform and Terrorism Prevention Act of 2004 attempt to address both the need for a process enabling passengers to correct errors in watch lists,⁸⁶ and for the U.S. Department of Homeland Security to check names of transatlantic passengers against watch lists before a flight departs from a European airport.⁸⁷

The Working Party was also concerned about the privacy implications of the technology used to transfer data. It favored a “push” system in which the airline’s equipment initiates transfers rather than the “pull” system in effect in early 2004 which allowed the U.S. government access to an airline reservation system. Although DHS has committed to the development of a “push” system, the Working Party has criticized the U.S. as being too slow in developing “push” technology.⁸⁸ The spring 2005 joint review will probably reveal whether a “push” system has been adopted.

Comparison of Systems for Collecting International Passenger Data

Australia and Canada also have systems for the collection of data of passengers on inbound international flights, including those from Europe. Accordingly, these two systems face the same sorts of international data transfer issues under the Data Protection Directive as the U.S. system has faced. One major difference, however, is that both Australia and Canada have comprehensive data protection laws which generally are consistent with the European model. The Article 29 Working Party of data protection commissioners has issued opinions on whether the Australian and Canadian passenger data systems provide adequate protection for passenger data pursuant to Article 25(6) of the Data Protection Directive.

Australia’s System:

The Working Party has concluded that the Australian passenger data system, which uses Passenger Name Record information, provides

⁸⁵ See, e.g., *Cat Stevens Held After D.C. Flight Diverted*, WASH. POST, Sept. 24, 2004, A10; *Two Men Detained After Air France Jet Diverted to Bangor*, PORTLAND PRESS HERALD, Nov. 22, 2004, B1.

⁸⁶ See Intelligence Reform and Terrorism Prevention Act of 2004, Pub. L. 108-458 § 4012 (1) (to be codified at 49 U.S.C. § 44903(j)(2)(G)).

⁸⁷ See Intelligence Reform and Terrorism Prevention Act of 2004, Pub. L. 108-458 § 4012 (2) (to be codified at 49 U.S.C. § 44909(c)(6)(B)).

⁸⁸ See Opinion 2/2004 on the Adequate Protection of Personal Data Contained in the PNR of Air Passengers to Be Transferred to the United States’ Bureau of Customs and Border Protection (CBP), available at http://europa.us.int/comm/internal_market/privacy/docs/wpdocs/2004/wp87_en.pdf (last visited June 10, 2004).

adequate privacy protection for data coming from Europe.⁸⁹ An important factor is that the Australian customs system is subject to The Privacy Act of 1988. Much of the data is never seen by a government official. Software screens out the data of over 95% of passengers on any flight so that the vast majority of PNR is never viewed or downloaded by Customs. The Personal Name Record information of the remaining 5% of passengers is analyzed by a Customs officer but typically only 0.05% to 0.1% of passengers are “intercepted” at the border for further evaluation. Australian Customs stores a passenger’s PNR data only if the person is found to have committed a violation of border protection law. Only 18 PNR data elements are considered, unless the person is in the 0.05% to 0.1% of passengers who are “intercepted.” Sensitive data is filtered. Only Customs uses the data; it is not transferred unless the passenger is alleged to have committed an offense or unless a court orders that the PNR be transferred to it. Passengers have rights of access and rectification, and can seek redress through the independent Office of the Federal Privacy Commissioner of Australia.⁹⁰

Canada’s System:

Canada has a system known as PAXIS administered by the Canada Border Services Agency (CBSA) which collects both Advance Passenger Information (API) and Passenger Name Record (PNR) information. The Article 29 Working Party has concluded that the system provides adequate privacy protection for data coming from Europe.⁹¹ PAXIS uses “push” technology to transmit data to Canada, rather than a “pull” system allowing access to airline reservation systems. Data can be used only for the purpose of combating terrorism. There are no open data fields transferred, thus reducing the likelihood that any data relating to sensitive issues like religion and health will be included. The maximum period for retaining data is three and a half years with a three step phased de-personalization of the information throughout the period. Transfers of data are limited. Only minimum amounts of data directly relating to antiterrorism may be transferred and cannot be sent outside of Canada unless destined for EU Member States or other countries which have received an “adequacy” finding under the EU Data Protec-

⁸⁹ See Opinion 1/2004 on the level of protection ensured in Australia for the transmission of Passenger Name Record data from airlines, *available at* http://europa.eu.int/internal_market/privacy/docs/wpdocs/2004/wp85_en.pdf (last visited June 24, 2004).

⁹⁰ *Id.*

⁹¹ See *Opinion 1/2005* on the level of protection ensured in Canada for the transmission of Passenger Name Records and Advance Passenger Information from airlines, *available at* http://europa.eu.int/internal_market/privacy/docs/wpdocs/2005/wp103_en.pdf (last visited Jan. 26, 2005)

tion Directive. All passengers have rights of access to and rectification of their personal data held by CSBA under the Canadian Privacy Act which has administratively been extended to people outside of Canada.

Proposed EU and Multilateral Systems:

Europe has also considered proposals for a harmonized system of transfers of passenger data. One Member State, the United Kingdom, has one for passengers arriving on international flights, the Air Passenger Information System.⁹² In April 2004, the EU Council of Ministers adopted the Air Passenger Data Directive, which must be transposed into national law by September 2006.⁹³ It applies only to flights originating outside EU and allows the data to be used for general law enforcement as well as border control and immigration purposes, subject to the general provisions of the Data Protection Directive. The type of data collected is limited to advance passenger information (API) which includes a passenger's name, date of birth, nationality, number and type of travel document and information about the flight. The data must be transferred no later than the end of check-in at the airport and must normally be deleted by the airline within 24 hours after the arrival of the flight. The passenger data must be deleted by the government within 24 hours after transmission, unless needed later for legitimate border control purposes.⁹⁴

As the European Commission and the Article 29 Working Party have stated, the issue of international transfers of passenger data is a global phenomenon which needs to be addressed through a multilateral agreement. The European Union submitted a proposal for a multilateral framework for Passenger Name Record data at a meeting of the International Civil Airline Organization in Cairo in March and April of 2004.⁹⁵ The proposal suggested formulation of data processing standards addressing transparency, a purpose limitation, storage limits, restrictions on onward transfer, rights of passengers, redress mechanisms, standards addressing type of government access ("pull" or "push"), time of transfer, filtering, data security and standards for harmonizing data fields.⁹⁶

⁹² See *EU Justice Ministers Agree to Require Collection of Inbound-Passengers' Data*, 3 PRIVACY & SECURITY L. (BNA) 393 (2004).

⁹³ Council Directive 2004/82, 2004 O.J. (L261) 24 [hereinafter *Air Passenger Data Directive*].

⁹⁴ *Id.*

⁹⁵ See *An International Framework for the Transfer of Passenger Name Record (PNR) Data*, available at http://www.icao.int/icao/en/atb/fal/fal12/documentation/fal12wp075_en.pdf (last visited June 24, 2004).

⁹⁶ *Id.*

PROPOSED U.S. PASSENGER SCREENING SYSTEMS SINCE MAY 2004

Registered Traveler

In an effort to accelerate airport screening of passengers, especially frequent flyers, the Transportation Security Administration (TSA) during the summer of 2004 began testing of a program titled Registered Traveler at five U.S. airports: Boston, Washington (Reagan National Airport), Houston (Bush International Airport), Minneapolis and Los Angeles. Applicants supply personal information which TSA uses to determine identity and perform a background check.⁹⁷ Travelers accepted in the program provide biometric identifiers consisting of finger scans and iris scans which are stored in the system's database. Registered travelers arriving for a flight submit to another finger or iris scan to confirm identity. As long as a registered traveler does not trigger a security alarm, while passing through a metal detector, for example, he or she avoids a "secondary screening."⁹⁸ This can be a significant time-saver for travelers because up to 15% of passengers are subjected to random secondary screenings.⁹⁹ The system has been popular with travelers.¹⁰⁰

Secure Flight

The proposed passenger screening program known as Secure Flight originated in August 2004 at the time of the suspension of the proposed CAPPS II project.¹⁰¹ It is a scaled back version of CAPPS II.¹⁰² Secure Flight will only apply to passengers on U.S. domestic flights and will apply the CAPPS I rules, will check names against the Terrorist Screening Center's watch list and possibly will use commercial data as well. Unlike the CAPPS I system which is administered by airlines,

⁹⁷ See Notice of Intent to Request Approval From the Office of Management and Budget for Three New Collections of Information/ Registered Traveler Pilot Program; Satisfaction and Effectiveness Measurement Data Collection Instruments, 69 Fed. Reg. 12, 865, (notice) (2004)

⁹⁸ See *TSA Launches Registered Traveler Pilot Program at Minneapolis Airport*, 3 PRIVACY & SECURITY L. REP. (BNA) 811 (2004).

⁹⁹ See, e.g., *Test Program is E-Z Pass for Airline Screenings*, N.Y. TIMES, June 27, 2004.

¹⁰⁰ See, e.g., *Zippering Through Airport Security*, BUSINESS WEEK, Sept. 6, 2004, 106 (TSA officials report intense public interest in Registered Traveler and that more than 7,200 people had applied to participate as of early September 2004).

¹⁰¹ See *Secure Flight Development and Testing Under Way, but Risks Should Be Managed as System is Further Developed 2*, available at <http://www.gao.gov/new.items/d05356.pdf> (last visited Mar. 29, 2005) [hereinafter *GAO Report on Secure Flight*].

¹⁰² See *Id.* at 3.

Secure Flight will be run by the Transportation Security Administration (TSA) using the larger consolidated watch list database not available to airlines. It will not include criminal checks and will not attempt to identify “unknown terrorists” by searching for patterns in a passenger’s travel or transaction history.¹⁰³ The TSA will obtain a passenger’s PNR data 72 hours prior to a flight and transmit the results of its analysis to the airline 24 hours prior to the flight. As with the current CAPPS I system, a passenger will be classified into one of three categories: (1) normal screening, (2) “selectee” or (3) “no fly.” A passenger in the normal screening category can still be selected randomly for secondary screening, or be subjected to secondary screening by triggering an alarm at the airport. “Selectees” are subjected to secondary screenings. People in the “no fly” category will be denied boarding unless cleared by a law enforcement officer at the airport.¹⁰⁴

A report issued by the General Accountability Office in March 2005 noted that the TSA is in the process of addressing privacy issues for Secure Flight, including the formulation of a redress process for passengers who feel they have been unfairly or incorrectly singled out. The report predicted that Secure Flight will be operational at two U.S. airlines in August 2005 and fully operational sometime during 2006.¹⁰⁵

CONCLUSION

There are some potentially serious deficiencies in the level of protection of privacy in transfers of airline passenger data from Europe to the U.S. The EU—U.S. agreement at the very least stretches several important European privacy principles such as the purpose limitation and proportionality. The data can be used for purposes other than counterterrorism and too much personal information can be transferred to the U.S. Onward transfer of data could be a problem because of the discretion which the Department of Homeland Security has to send data to governmental institutions both inside and outside the U.S. There also are questions about enforceability of the rights of European citizens because there is no independent redress mechanism. Moreover, there is a question about whether the DHS Undertakings are binding. The joint EU—U.S. review which is expected to be completed in the spring of 2005 should provide insight into the extent to which there have been privacy problems. There also is the possibility that the European Court of Justice will annul both the Commission’s adequacy determination and the Council’s agreement with DHS.¹⁰⁶

¹⁰³ *See Id.* at 10.

¹⁰⁴ *See Id.* at 13.

¹⁰⁵ *See Id.* at 16.

¹⁰⁶ *See supra* text accompanying notes 70 and 71.

Multilateral standards for transfers of airline passenger data are the best long term solution for protecting privacy, but may be difficult to achieve. In the meantime, the May 2004 EU – U.S. agreement will expire at the end of 2007. Any future arrangement between the EU and U.S. should move further in the direction of meeting European privacy standards. Both the Canadian and Australian systems could serve as models of ways of enabling transfers of passenger data for counter-terrorism purposes in ways which provide stronger protection for privacy.

THE CONTINUING SAGA OF INVESTIGATORY INTERVIEWS IN THE NON-UNION WORKPLACE: THE NLRB REVISES THE RULES AGAIN

by FRED NAFFZIGER* and LARRY PHILLIPS**

There is a certain ebb and flow to the interpretation of provisions of the National Labor Relations Act¹ (NLRA) by the National Labor Relations Board (NLRB) over the decades. This is exemplified by the Board's recent decision concerning the right of employees in a non-union workplace to the presence of a coworker during an investigatory interview.² We will analyze this decision, discuss the legal history behind it, and outline its ramifications for the human resource operations of non-union employers.

It is not surprising that the law evolves to reflect technological, social or economic changes. Frequently, such changes are directly attributable to legislative action. When the Supreme Court interpreted the 1964 Civil Rights Law's ban against sex discrimination as allowing the exclusion of pregnancy related benefits from an employer's disability plan,³ Congress responded with legislation prospectively reversing the effects of that decision.⁴ However, we are not addressing legal changes of this

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¹ 29 U.S.C. § § 151-68 (2000) (hereinafter NLRA).

² IBM Corp., 341 N.L.R.B. No. 148 (2004) (hereinafter IBM).

³ General Electric v. Gilbert, 429 U.S. 125 (1976).

⁴ The Pregnancy Discrimination Act of 1978 added § (k) to § 701 of Title VII of the 1964 Act defining "on the basis of sex" to include "pregnancy, childbirth, or related medical conditions." 42 U.S.C. § 701(k) (2000).

nature. Rather, we are examining a situation where the statutory language has not been altered. Instead, the legal interpretation by the administrative agency has been completely reversed multiple times.

I. EMPLOYEE RIGHTS UNDER THE NLRA

Many people erroneously believe that workers have labor law rights only when they are represented by a union in a unionized workplace. All employees⁵ enjoy “the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection”⁶ It is important to note that such rights are not restricted to union members nor are they given to unions; they are bestowed upon employees.⁷ And, as a general proposition, an individual is free to join or decline to join a union.⁸

Members of management do not enjoy rights under federal labor law.⁹ The underlying structure of labor-management relations is adversarial in nature. Not necessarily adversarial in the sense of enemies, rather adversarial in the nature of being opposite in position to each other and desiring something in one’s own self-interest that may not be in the interest of the other negotiator’s side to grant. Both management and labor have a “duty to bargain collectively.”¹⁰ The drafters of the NLRA believed that this could be best achieved when one’s duty of loyalty is owed entirely to one side of the bargaining table. Thus, one cannot be a hybrid; one is either on the management team or on the labor team.

Making a determination of the dimensions of an employee’s rights is somewhat simpler in a unionized environment. A union representative

⁵ The term “employee” is defined in section 2(3) of the NLRA, 29 U.S.C. § 152(3) (2000).

⁶ NLRA § 7, 29 U.S.C. § 157 (2000).

⁷ The Supreme Court decision noted directly that the Section 7 protections of the labor law are not confined solely to union members, but also enjoyed by non-union employees in *NLRB v. Washington Aluminum Co.*, 370 U.S. 9 (1962).

⁸ If a union security clause has been properly adopted under NLRA § 7, 29 U.S.C. § 157 (2000), that freedom does not exist. However an exception to this exception exists in those states that have adopted a “right-to-work” law under the Labor Management Relations Act (Taft-Hartley Act) § 14(b), 29 U.S.C. § 14(b) (2000) and in these states an individual has total free choice as to union membership.

⁹ Our discussion is confined solely to labor law. Management personnel do enjoy the protection of many congressional statutes, such as the 1964 Civil Rights Act. The labor law term for management personnel is “supervisor” and its definition is contained in section 2(11) of the NLRA, 29 U.S.C. § 152(11).

¹⁰ The employer’s duty is mandated in NLRA § 8(a)(5), 29 U.S.C. § 158(a)(5) (2000) and labor’s in NLRA § 8(b)(3), 29 U.S.C. § 158(b)(3) (2000). Bargaining is defined in NLRA § 8(d), 29 U.S.C. § 158(d) (2000).

is selected through the concept of “majority rule”¹¹ and union members have ratified the resulting collective bargaining agreement. In most instances, the interests of the union and the employee will be parallel.¹² The one voice speaking for the employees is that of the union and it counterbalances the weight of the employer. In the non-union environment, establishing the appropriate framework of employee rights is made somewhat more difficult by employees’ decision not to choose a union as their spokesman. Here resides a cacophony of voices and interests. Thus, we will first examine the rights of employees, with respect to the presence of a coworker, in investigatory interviews conducted by the employer. The law here is well established and has been settled by a definitive 6-3 vote of the Supreme Court of the United States.¹³

II. WEINGARTEN RIGHTS

Employers hold interviews with employees for a wide variety of reasons, such as conducting performance evaluations, soliciting information and feedback on production and quality control issues, brainstorming for new ideas, attempting to validate the bases for complaints, issuing verbal reprimands and other forms of discipline, and seeking to improve the morale of colleagues. Our focus is solely upon “investigatory” interviews conducted by an employer when the interviewed employee reasonably believes the investigation will result in disciplinary action against him. We are not considering what may be called a “disciplinary” interview where a disciplinary decision is to be announced and imposed upon an employee. The NLRB differentiates between the two and the employer is mandated to include the union representative in such a meeting under its obligation to bargain.¹⁴ Also, remember that we are speaking of employees as defined under the NLRA. Thus, our analysis excludes any interview held by supervisory personnel with a fellow member of the management ranks or with independent contractors.

The right of an employee to have a union representative present at an investigatory interview is referred to as the “Weingarten right”. The case developed out of an employer’s investigation of possible theft by an

¹¹ The concept of majority rule is fundamental to the structure of labor law and the union is the “exclusive” representative of all employees, NLRA § 9(a).

¹² The Supreme Court has recognized that important differences can exist between a union and the employees of which it is the exclusive representative. Thus, it has judicially created a “duty of fair representation” on the part of the union when representing its members, including dissident members of the bargaining unit. *See Vaca v. Sipes*, 386 U.S. 171 (1967); *Ford Motor Co. v. Huffman*, 345 U.S. 330 (1953).

¹³ *N.L.R.B. v. J. Weingarten*, 420 U.S. 251 (1975) (hereinafter cited as *Weingarten*).

¹⁴ *Jacobe-Pearson Ford Inc.*, 172 N.L.R.B. 594 (1968).

employee. An employee allegedly took food (the employer's business consisted of the sale of food at retail) valued at \$2.98, but paid only \$1.00 for it. Eventually, it turned out that the employee had not stolen anything. Rather, the store was out of \$1.00 food containers, so that the employee's purchase of \$1.00 worth of food was placed in a larger container designed for \$2.98 purchases. The employee was not disciplined. However, she was questioned in two interviews at which she made several requests that a shop steward or other union representative be in attendance. These requests were denied. When the matter was resolved to the satisfaction of management, she was requested not to discuss the matter with others. Instead of honoring that request, she reported the incidents to a union representative. The union took the matter to the NLRB, contending that the employer had wrongfully interfered with the employee's right to engage in concerted activities for mutual aid and protection in violation of Section 8(a)(1) of the NLRA¹⁵ by denying her request for the presence of a union representative. The NLRB ruled against the employer.¹⁶ The Court of Appeals refused enforcement of the NLRB order, finding that the Board's construction of Section 7 was impermissible.¹⁷ The United States Supreme Court affirmed the ruling of the Board.¹⁸

The exercise of the right to have a coworker present must be requested by the employee and it exists only in situations where the employee reasonably believes the investigation will result in disciplinary action.¹⁹ If the employee does not want the coworker's presence, the union may not insist on the representative's presence. The employer enjoys management rights, and in its exercise, may choose not to interview an employee who insists upon the presence of a union representative and, if such a representative is allowed to be present, the employer is under no obligation to bargain with the representative.²⁰ The representative's role is two-fold: 1) to assist the employee, attempt to clarify facts, or suggest other employees who may have knowledge of pertinent facts;²¹ and 2) to safeguard the interests of the entire bargaining unit. The representative's role may simply be as an observer and witness, if the employer restricts the purpose of the meeting, as it has the right to do, to simply listening to the employee's account of the incident under investigation. For conversations between supervisory

¹⁵ NLRA § 8(a)(1); 29 U.S.C. § 158(a)(1) (2000).

¹⁶ 202 N.L.R.B. 446 (1973). This decision is an extension two earlier ones, *Quality Mfg. Co.*, 195 N.L.R.B. 197 (1972) and *Mobil Oil Corp.*, 196 N.L.R.B. of 1052 (1972).

¹⁷ 485 F.2d 1135 (1973).

¹⁸ *Weingarten*, 420 U.S. 251 (1975).

¹⁹ *Id.* at 256.

²⁰ *Id.* at 257.

²¹ *Id.*

personnel and employees which concern training, correction of work techniques, or the communication of instructions, no presence of a coworker is mandated.²²

The Supreme Court decision exemplifies a court deferring to the administrative expertise of a regulatory agency. The decision is relatively short and, rather than consisting primarily of an exposition of its own philosophy and analysis, it relies liberally on quoting the language of the Board's opinion and making approving comments of related Board decisions. In a remark that assumes substantial importance in the NLRB's latest decision, the Court commented that "the responsibility to adapt the Act to changing patterns of industrial life is entrusted to the Board."²³

The Court holds that the Board's shaping of the contours and limits of its decision "plainly effectuates the most fundamental purposes of the Act."²⁴ It lists with approval the various interpretations utilized by the NLRB that underlie its construction of the statutory requirement. These cases include the observation that an employer's denial of such a request constitutes a "serious violation" of the statute.

III. WEINGARTEN RIGHTS IN THE NON-UNION WORKPLACE-A CONVULATED HISTORY

Once a worker represented by a union was determined to have the right to a coworker's presence in an investigatory interview, it was not unexpected that a worker in a non-union place of employment would eventually seek to possess that identical right. There is, at a minimum, some logical appeal to such an argument because Section 7 of the NLRA does not differentiate between unionized and non-union employees.²⁵ And, in fact, the NLRB's first ruling on the issue in 1982,²⁶ held that non-union members enjoy the same right to a co-worker's presence as part of Section 7's right to engage in concerted activity for mutual aid or protection. This only remained the law for three years.

The issue was revisited by the NLRB and this time it determined that such a Section 7 right does not exist.²⁷ Its rationale was that requiring the presence of a requested co-worker interfered with the employer's statutory right to deal with non-unionized employees on an individual basis. It said that such an interpretation, that Section 7 did not grant such a right to non-union employees, was mandatory.

²² *Id.* at 256.

²³ *Id.* at 266.

²⁴ *Id.* at 261.

²⁵ *See supra*, note 6 and accompanying text.

²⁶ *Materials Research Corp.*, 262 N.L.R.B. 1010 (1982).

²⁷ *Sears, Roebuck & Co.*, 274 N.L.R.B. 230 (1985).

The subsequent passage of another three years saw the NLRB refining the previous position, not in the result, but in the legal rationale. In a case on remand from a court of appeals, the Board determined that its *Sears-Roebuck* decision, that non-union personnel lacked such a right, better served the overall balance between management and labor, and would be affirmed.²⁸ However, its characterization that such an interpretation was “mandatory” was now altered to being “permissible” under the statute. This legal position enjoyed twelve years of stability until it was changed once again in *Epilepsy Foundation*.²⁹

In *Epilepsy Foundation*, a 3-to-2 majority of the full NLRB Board held that *Weingarten* rights apply in the non-union workplace. It did so by placing great emphasis on Section 7’s right to concerted activities for mutual aid and protection and commenting that such rights “are enjoyed by all employees and are no wise dependent on union representation for their implementation.”³⁰ Interestingly, however, the Board ruled that, this rule would not only apply prospectively, but it would also apply retroactively making the employer’s dismissal of a worker, who refused to meet with a supervisor in the absence of a coworker, violative of the statute. The United States Supreme Court has ruled that agency interpretation of a statute is within the powers of that agency, so long as the agency’s interpretation is reasonable, and thus not to be overturned by a court.³¹ The appellate court noted that the Board’s policy had swung 180 degrees more than once,³² and that one might debate which position is more sound, but it held the latest interpretation to be “reasonable.”³³ Thus, it upheld the NLRB switch in position. But, it did not allow the Board to retroactively apply the rule in order to reinstate the discharged employee. The appellate court said that the employer, in discharging the worker, had properly relied on the then existing NLRB rule. A “new rule may justifiably be given prospectively-only effect” in order to equitably treat those regulated by the previously existing old rule.³⁴ When there is a clarification or a new application of

²⁸ E. I. DuPont & Co., 289 N.L.R.B. 627 (1988) (hereinafter DuPont).

²⁹ 331 N.L.R.B. 676 (2000) (hereinafter *Epilepsy Foundation*), *aff’d* in part, *rev’d* in part, 268 F. 3rd 1095 (2001).

³⁰ *Epilepsy Foundation* 331 N.L.R.B. at 678 (quoting *Glomac Plastics*, 234 N.L.R.B. 1309, 1311 (1978)).

³¹ *Weingarten*, 420 U.S. at 266.

³² Such legal “flip-flops” are attributable to changes in the political makeup of the Board, as a President asserts indirect control of this independent administrative agency via his Presidential appointment powers, rather than any legislative alterations to the statute.

³³ 268 F. 3rd 1095, 1099 (2001).

³⁴ *Williams Natural Gas Co. v. FERC*, 3 F.3d 1544, 1554 (D.C. Cir. 1993).

an existing law, only then may it be retroactively applied.³⁵ *Epilepsy Foundation* would remain good law for only four years and one month.

IV. THE CURRENT NLRB INTERPRETATION

In June of 2004, another 3-to-2³⁶ vote by a newly constituted Board has restored the *Dupont*³⁷ rule that a worker in a non-union workplace lacks the right to compel an employer to allow the presence of a coworker at an investigatory interview that the worker reasonably believes might result in the imposition of discipline. The Board characterized this interpretation as being equally permissible as an interpretation requiring acquiescence to an employee's request for a coworker's presence, yielding discretion to the Board to select the interpretation it prefers. As stated by one court, it "is the Board's duty to choose amongst permissible interpretations of the Act to best effectuate its overarching goals."³⁸ The Board built its decision, overruling the prior precedent, on language of the Supreme Court in *Weingarten* itself. According to the Court, it is the Board's duty is "to adapt the Act to changing patterns of industrial life" and that the Board possesses the "special function of applying the general provisions of the Act to the complexities of industrial life."³⁹

The Board made four arguments to support the change in policy.⁴⁰ Firstly, it noted that coworkers, unlike union representatives, do not represent the entire work force under the law. The presence of a coworker in the non-union setting is to be supportive of the interviewee, not serve the interests of all the employees. Second, it concludes that a coworker does nothing to offset the power of the employer in such a meeting, whereas a union representative tends to balance out the power relationship since he represents the full collective force of the bargaining unit in the meeting. In *Weingarten*, the Court noted that a knowledgeable union representative is capable of advancing the purpose of the meeting by pointing out favorable facts, illuminating the issues involved, and keeping the discussion focused.⁴¹ The Board notes that it is doubtful that an ordinary coworker, lacking in experience as a group representative, will bring such advantages to the meeting. In fact, the Board notes in making this third point, that the coworker might be a "co-conspirator" in the event being investigated. It also remarks that the "critical difference between a unionized work force and a nonunion work

³⁵ *Id.*

³⁶ *IBM Corp.*, 341 N.L.R.B. No. 148 (2004) (hereinafter *IBM*).

³⁷ *DuPont*, 289 N.L.R.B. 627 (1988).

³⁸ *Slaughter v. NLRB*, 794 F.2d 120, 125 (1986).

³⁹ *Weingarten*, 420 U.S. at 266.

⁴⁰ *IBM*, 341 N.L.R.B. at 4-6.

⁴¹ *Weingarten*, 420 U.S. at 263.

force is that the employer in the latter situation can deal with employees on an individual basis.⁴² Lastly, employer investigations can involve sensitive subjects such as discrimination matters, insurance, and health issues,⁴³ allegations of illicit drug or alcohol usage, possible embezzlement or threats of violence. Caution and confidentiality are a *sine qua non* in conducting such an investigation. In the union setting, the representative's fiduciary duty to the bargaining unit prevents the improper disclosure or use of information elicited through the investigation. A simple coworker has no such legal restriction imposed upon him. Disclosure can not only damage or embarrass the employee involved, but also possibly prevent a thorough investigation that is required by law. For these reasons, the Board concludes that the better result is a decision in favor of the employer's interests, rather than favoring an employee with a right to a coworker's presence.

The dissent obviously disagreed strongly with both the legal analysis and the holding of the majority. Interestingly, it implicitly criticizes the majority for departing from the doctrine of *stare decisis*, when the history of the issue demonstrates no such respect for such precedent and none is required by case law.⁴⁴ It claims that the majority makes workers lacking a union "second-class citizens of the workplace."⁴⁵ When it could not convince the majority to always guarantee an employee the right to a coworker's presence, it unsuccessfully advanced the argument that, rather than never granting such a right, the issue "should be addressed by refining the right, case by case"⁴⁶ In that manner, an employee could have the assistance of a coworker when it didn't threaten confidentiality and yet allow the employer to exclude the coworker "conspirator" who was involved in the incident under investigation. Such a rule would yield both an extensive degree of confusion and a great deal of litigation as employers and employees sought to discern what was, and was not, permissible. The majority rejected this suggestion, opting instead for a "bright line" test⁴⁷ as exists under *Weingarten* for the unionized workforce.

⁴² *IBM*, 341 N.L.R.B. at 5.

⁴³ The Health Insurance Portability & Accountability Act of 1996 (commonly referred to as "HIPPA"), Public Law 104-191 places new restrictions on the dissemination of health related information in order to protect the confidentiality and security of a person's health data. The U.S. Department of Health & Human Services adopted rules implementing these privacy provisions in April of 2003. See 65 Fed. Reg. 82462. The rules are enforced by the Department's Office of Civil Rights.

⁴⁴ *Weingarten*, 420 U.S. at 266.

⁴⁵ *IBM*, 341 N.L.R.B. at 18.

⁴⁶ *Id* at 23.

⁴⁷ *Id* at 8.

V. IMPLICATIONS FOR HUMAN RESOURCE MANAGEMENT

This most recent decision is likely to be upheld on appeal, since Board decisions on both sides of the issue have been previously upheld.⁴⁸ Obviously, it grants employers full discretion to decide whether or not they believe it is in their interest to allow the presence of a coworker in any investigatory interview they decide to conduct. Yet, there remain legal caveats for employers. Foremost among them is that under *IBM* and earlier Board decisions, the employee has a right to request the presence of a coworker and may not be disciplined for making the request.⁴⁹ This is a critical issue with respect to management decision-making when an employee, in either a non-union environment or a non-bargaining unit employee in a union environment, asks for an employee representative in an investigatory interview. It is clear that the employee has a Section 7 right to ask for such representation but there is no right to the representation itself. However, for an employer to discipline or otherwise make an employment decision based on the exercise of that right would clearly be an unfair labor practice as defined in Section 8 and could result in a posting, overturning of the action, and potential back wages. In both the unionized and non-unionized workplace, the employer has no obligation under *Weingarten* and *IBM* to conduct an interview. Forgoing an interview can pose dangers to both parties. It will deprive the employee of an opportunity to defend, justify, or explain his behavior. It can lead the employer to take action based upon incomplete information, thereby generating potential legal repercussions, i.e., the charge that the employer failed to conduct a thorough investigation of an employee's charge of a hostile working environment in violation of the federal civil rights law.

The Board majority in *IBM* says that peer mediation, ombudsman, and whistleblower statutes can all supply employees with due process in the non-unionized workplace.⁵⁰ These are all valid activities that can be part of a union avoidance strategy through union substitution.⁵¹ This involves engaging in practices that effectively make the union unnecessary. Could a union substitution strategy include the allowance of employee representatives at investigatory interviews? The short answer is yes, but for the reasons discussed in *IBM*, we believe that such a practice is inadvisable. The non-union employer does not want to create

⁴⁸ See note 26 *supra* for a case where the court of appeals upheld a Board decision that unrepresented employees lack such a statutory right and note 30 for an appellate decision upholding a Board decision holding that employees do have such a statutory right.

⁴⁹ *IBM*, 341 N.L.R.B. at 7; *Electrical Workers Local 236*, 339 N.L.R.B. No. 156, slip op. at 2 (2003); *DuPont*, 289 N.L.R.B. 627 (1988).

⁵⁰ *IBM* 341 N.L.R.B. at 7.

⁵¹ J.W. BUDD, *LABOR RELATIONS: STRIKING A BALANCE* (McGraw Hill 2005).

an employee committee to which it defers such investigatory and/or disciplinary matters. Section 8(a)(2) of the NLRA declares it an unfair labor practice for an employer “to dominate, or to interfere with the formation of or administration of any labor organization or contribute financial or other support to it.”⁵² Even in a non-union workplace, the Board has determined that the formation of such a committee to handle disciplinary matters or a quality circle program to improve productivity, cut down on absenteeism, etc. can constitute unlawful domination of a union⁵³ if it addresses mandatory subjects of bargaining such as this, and the appellate court has supported this Board interpretation.⁵⁴

VI. WILL TECHNOLOGY REPLACE THE NEED FOR INVESTIGATORY INTERVIEWS?

Certain employers may seek to rely upon technology to aid their investigation and possibly render unnecessary an employee interview. A polygraph examination may be considered as an ideal substitute. This device raises important legal issues. The Employee Polygraph Protection Act⁵⁵ places severe restrictions upon use of polygraph tests⁵⁶ and oftentimes such tests cannot legally replace a face-to-face interview.

Utilizing computer software programs called “spyware,” to monitor an employee’s use of an employer’s computer, monitoring an employee’s use of the employer’s telephone, e-mail, or instant messaging systems may be legal,⁵⁷ but one should proceed with caution nonetheless, as states consider placing new restrictions on such practices. The dangers inherent in using company e-mail to conduct personal business were well illustrated in March of 2005 when the Boeing corporation’s board of directors forced the resignation of its CEO, Harry Stonecipher. The Board’s action was the result of disclosure to the company of e-mails

⁵² 29 U.S.C. § 158(a)(2) (2000).

⁵³ In this portion of the paragraph, we are speaking about a non-union workplace, i.e. the employer does not recognize a union as the representative of its employees and the NLRB has not certified any union as the employees’ representative. However, under the *Electromation decision*, see *infra* note 54, the NLRB will consider such a committee as an employer created or dominated “union” and refer to it as a union.

⁵⁴ *Electromation, Inc.*, 309 N.L.R.B. 990 (1992), *enforced* 35 F.3d 1148 (7th Cir. 1994). The companion case in the unionized workplace is *E. I. DuPont & Co.*, 311 N.L.R.B. No. 88 (1993). A legal quality circle program is defined in *Crown Cork & Seal Co., Inc.*, 334 N.L.R.B. No. 92 (2001).

⁵⁵ 29 U.S.C. § § 2001-2009 (2000).

⁵⁶ For an examination of this statute’s reach, see Fred Naffziger, *The Intricacies of Polygraph Examinations, Economic Losses, and Independent Contractors*, 6 J.L. STUDIES IN BUSINESS, No. 1, 67-78 (1998).

⁵⁷ One case upholding such employer monitoring of its own equipment is *Bohach v. City of Reno*, 932 F. Supp. 1232 (D. Nev. 1996).

between the CEO and another employee, with whom he was having an extramarital affair.⁵⁸

The American Management Association and the ePolicy Institute have recently published the results of their 2004 survey on workplace e-mail policies.⁵⁹ In excess of three-fourths of the surveyed companies have a written policy governing e-mail usage and one-fourth of them have dismissed an employee for violations of the policy.⁶⁰ Boeing has not answered questions regarding how the e-mails of its CEO were obtained. It may have been that a third party intercepted them, that a hacker obtained access to the system, or that an individual in the technology department viewed them. Interestingly, the AMA and ePolicy report found that 60% of respondents utilize software to monitor external (both outgoing and incoming) e-mail, but only 27% use software to monitor internal e-mail communications between employees.⁶¹

A governmental employer's resort to substance abuse testing can raise Fourth Amendment constitutional issues.⁶² These issues are absent when the employer is in the private sector and wishes to utilize such testing as a part of its investigation. Upon occasion, an employer may want to review an employee's credit report. For instance, in a case of suspected embezzlement, the employer may want to know whether an employee is subject to severe financial pressure from creditors. To avoid invasion of privacy litigation by an employee, an employer may find it beneficial to have job applicants and current employees sign a consent form allowing the employer to conduct random drug tests and solicit credit bureau histories.

Certain investigations, such as whether an e-mail distribution of jokes, comments, or cartoons occurred, in connection to an employee's complaint that such communications have created a hostile sexual working environment, may lend themselves to the utilization of spyware and eliminate the necessity of some face-to-face interviews. The

⁵⁸ For a more complete discussion of the matter, see Daniel Dunaief, *Boeing Sex Scandal, CEO Quits in Embarrassment*, Daily News, available at www.nydailynews.com/03-08-2005/business. Of course, multiple dangers lie in disclosure of internal e-mail. In Boeing's case, it not only cost the CEO his position, but it generated a great deal of publicity that the company may have preferred be avoided. The litigation discovery process may also generate copies of e-mail communications that may be exculpatory or incriminating in civil and criminal actions.

⁵⁹ AMA Research, *2004 Workplace E-mail and Instant Messaging Survey Summary*, available at www.amanet.org.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² U.S. CONST., amend. IV; *Skinner v. Railway Labor Executives Ass'n.*, 489 U.S. 602, 617 (1989). For a fuller discussion of electronic monitoring and drug and alcohol testing in the workplace, see Fred Naffziger and Larry Phillips, *Conducting Employee Investigations Prior to Imposition of Discipline*, 19 MIDWEST L. REV. 153-176 (2004).

nature of certain other complaints, such as an alleged physical altercation, do not lend themselves to technological analysis. With the latter, one needs to speak with individuals and make inquiries such as what the person heard, observed, and who acted first. And, as briefly mentioned above, other technologies, polygraphs and drug testing can create additional legal questions. For such reasons we do not believe that technological advances in the workplace currently serve as a practical substitute for an investigatory interview by an employer who is seeking a full explanation of a reported event.

WHAT THE FUTURE HOLDS

While predicting the results of future litigation may be considered as risky, we predict *IBM's* eventual reversal. With the NLRB already having taken opposite positions on the issue several times, it is fairly certain to once again swing 180 degrees on the legal issue. In fact, the dissent closes with the remark that "today's decision itself is unlikely to have an enduring place in American Labor law,"⁶³ anticipating the future date when the Board's majority will again consist of members willing to interpret the NLRA as bestowing *Weingarten* rights on all employees. What remains uncertain is the date of this reversal. Eventually, however, another American President will make appointments to the NLRB of individuals who return to employees the right to the presence of a coworker at investigatory interviews as was done in *Materials Research*⁶⁴ and *Epilepsy Foundation*.⁶⁵ This is most likely to occur with a pro-labor President, a position typically associated with the Democratic Party.⁶⁶ We leave to the reader the determination as to whether such instability in labor law advances the interests of the participants in the labor-management realm.

⁶³ *IBM*, 341 N.L.R.B. at 23.

⁶⁴ 262 N.L.R.B. 1010 (1982).

⁶⁵ 331 N.L.R.B. 676 (2000).

⁶⁶ Boards dominated by Democratic appointees of Presidents Jimmy Carter and Bill Clinton interpreted the statute as giving non-union workers the right, whereas Boards controlled by members appointed by Republican Presidents Ronald Reagan and George W. Bush apply the opposite interpretation.

TOO FEW NOTES? DIGITAL SAMPLING AND
FRAGMENTED LITERAL SIMILARITY IN
NEWTON V. DIAMOND.

by LUCILLE M. PONTE*

Childhood memories of four women singing in a rural Arkansas church inspired jazz flutist and college professor, James Newton, to compose his song, *Choir*.¹ In this homage to his earliest memory of music, he threaded together elements of traditional Sub-Saharan African music

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¹ *Newton v. Diamond*, 349 F. 3d 591, 592 (9th Cir. 2003), *aff'g* 204 F. Supp. 2d 1244, *reh'g denied*, 2004 U.S. App. LEXIS 23398 (9th Cir. Cal., Nov. 9, 2004)(en banc). Newton, a Senior Professor of Music at California State University in Los Angeles, is also a Guggenheim fellow and the Director of Music Programming and Research of the Luckman Fine Arts Complex, and the Artistic Director and Conductor for the Luckman Jazz orchestra. <http://www.meetthecomposer.org/newton.html> (last visited Jan. 19, 2005). See generally, David S. Blessing, *Who Speaks Latin Anymore? Translating De Minimis Use for Application to Music Copyright Infringement and Sampling*, 45 WM. & MARY L. REV. 2399 (2004)(offers overview of *Newton* appellate decision in light of history of digital sampling and varied application of de minimis use in copyright disputes); Peter Cuomo, Legal Update, *Claiming Infringement Over Three Notes Is Not Preaching To The "Choir": Newton V. Diamond And A Potential New Standard In Copyright Law*, 10 B.U. J. SCI. & TECH. L. 177 (2004)(provides overview of digital sampling and review of *Newton* appellate decision); Susan J. Latham, Article, *Newton v. Diamond: Measuring the Legitimacy of Unauthorized Compositional Sampling - A Clue Illuminated and Obscured*, 26 HASTINGS COMM. & ENT. L.J. 119 (2003)(provides background on digital sampling and analysis of *Newton* district and appellate court decisions).

and African-American gospel music along with classical and Japanese ceremonial court music.² Little did he know that his unusual performance techniques had struck a responsive chord with the Beastie Boys. The hip-hop group looped a six-second sample of the flutist's performance throughout their hit rap song, *Pass the Mic*.³ Eight years after the hit, a student in passing asked Newton about his work with the Beastie Boys, setting the scene for a bruising 4-year copyright infringement legal battle.⁴ The case, which pitted recording artists against musical composers,⁵ yielded a significant decision in the ongoing copyright war over the practice of digital sampling,⁶ commonly found in rap and hip-hop recordings.⁷

With older, more cumbersome analog recording devices being replaced by the faster and cheaper technology of digital samplers, recording artists and engineers can easily capture and/or manipulate snippets of

² 349 F. 3d at 592.

³ *Id.* See, Stephen R. Wilson, *Music Sampling Lawsuits: Does Looping Music Samples Defeat the De Minimis Defense?*, 1 J. HIGH TECH. L. 179 (2002)(offers critical analysis of and call for additional "observability" standard in claims of de minimis use of looped digital samples). See *infra* notes 105-112 and accompanying text.

⁴ *Id.*

⁵ *Id.* Richard Kessler, executive director, the American Music Center, an arts organization representing over 3,000 member composers, asserted that "[t]he ruling in this case will have a chilling effect on musically creative artists".... [T]he idea that the judge would take a look at these six notes and determine that they are not original and didn't warrant protection, it's something musical artists, composers will and should fear." *Id.* See *infra* note 9 and accompanying text.

⁶ Sampling originated with Jamaican "dub" in the 1960s in which disc jockey manually mixed snippets of different recordings while speaking or chanting over portions of the remix. Neela Kartha, *Comment: Digital Sampling and Copyright Law in a Social Context: No More Color-Blindness!!*, 14 U. MIAMI ENT. & SPORTS L. REV. 218, 223-24 (1996-1997); Latham, *supra* note 1, at 122; Robert M. Szymanski, *Audio Pastiche: Digital Sampling, Intermediate Copying, Fair Use*, 3 UCLA ENT. L. REV. 271, 277 (1996). A Jamaican-born disc jockey, Kool Herc, brought Jamaican "dub" to the New York club scene coinciding with the "break dancing" craze of the 1970s. Kartha, *supra*, at 224; Latham, *supra* note 1, at 122; Szymanski, *supra*, at 277-78. See *infra* notes 7-8 and accompanying text.

⁷ The *Newton* district court noted that, "[t]he practice of sampling portions of pre-existing recordings and compositions into new songs is apparently common among performers of the genre known as rap. . . . Musicians sample pre-existing works either digitally, by lifting part of a song from a pre-existing master recording and feeding it through a digital sampler, or by hiring musicians who replay or re-sing portions of the pre-existing composition." 204 F. Supp. 2d at 1245, quoting *Williams v. Broadus*, 2001 U.S. Dist. LEXIS 12894, No. 99 Civ. 10957 MBM, 2001 WL 984714, at *1 n.1 (S.D.N.Y. Aug. 27, 2001). See also, Kartha, *supra* note 6 (author argues that copyright law is racially-biased for historically stripping black musicians of copyright protection from white appropriation while punishing innovative rap artists for development of sampling technology). See *supra* note 6 and accompanying text.

unique sounds or music for placement into current hits.⁸ Copyright lawsuits are on the rise as the recording industry makes greater use of digital samples, incorporating existing songs and recordings into new songs, particularly involving rap and hip-hop artists.⁹ In *Newton v. Diamond*,¹⁰ the district and appellate courts considered whether or not the Beastie Boys were required to seek a license, not just for the sampled sound recording, but also for the underlying three-note sequence with a single background note contained in Newton's musical score.¹¹

In *Newton*, the district court¹² and the Ninth Circuit¹³ both applied the quantitative and qualitative analysis of *de minimis* use to the Beastie Boys' digital sampling of Newton's musical composition.¹⁴ Both courts determined that the rap group's sampling of *Choir* was *de minimis*, failing to give rise to actionable copyright infringement for the unlicensed use of the underlying musical composition.¹⁵ Applying *de minimis* use, both the district and appellate court agreed that the Beastie Boys only needed to license the copyright to the sound recording,

⁸ Sampling previously relied upon the manual skills of DJs to manipulate turntables, scratch records and make use of mix boards to pluck out various fragments of sound recordings, while rapping to the newly-created symphony of sounds. The development of the Musical Instrument Digital Interface (MIDI) synthesizer moved sampling away from the skills of the DJ to the work of sound engineers and software designers in manipulating a universe of digitized music and sounds. Kartha, *supra* note 6, at 224; Latham, *supra* note 1, at 123; Szymanski, *supra* note 6, at 277-78. See *supra* notes 6-7 and accompanying text.

⁹ Ben Challis, *The Song Remains the Same: A Review of the Legalities of Music Sampling*, THE MUSIC JOURNAL, Dec. 2003, at <http://www.musicjournal.org/03thesongremainssthesame.html> (last visited Jan. 19, 2005); Ronald Gaither, *The Chillin' Effect of Section 506: The Battle Over Digital Sampling in Rap Music*, 3 VAND. J. ENT. L. & PRAC. 195, 204-05 (2001); Latham, *supra* note 1, at 1; Szymanski, *supra* note 6, at 291-92. Typically, record companies place the burden on recording artists to "clear" or obtain copyright permission for both the sound recording and the musical composition of samples. 349 F. 3d at 592. See, Kartha, *supra* note 6, at 227-28; Latham, *supra* note 1, at 124-25; Szymanski, *supra* note 6, at 299; Wilson, *supra* note 3, at 183.

¹⁰ *Newton v. Diamond*, 349 F. 3d 591, 592 (9th Cir. 2003), *aff'g* 204 F. Supp. 2d 1244, *reh'g denied*, 2004 U.S. App. LEXIS 23398 (9th Cir. Cal., Nov. 9, 2004) (en banc). See *supra* note 1 and accompanying text.

¹¹ The district court found that Newton's "musical composition of the sample at issue consists of a "C" note played on the flute while the performer sings a "C," ascends one-half step to "D-flat," and descends again to the "C." The score is not further orchestrated and contains neither time nor key signatures. (footnote omitted) The score also calls for between 90 and 180 seconds of improvisation. The C -- D-flat -- C sequence appears only once in the composition." 204 F. Supp. 2d at 1250.

¹² 204 F. Supp. 2d at 1256-59.

¹³ 349 F. 3d at 596-97.

¹⁴ See *infra* notes 56-60, 74-79 and accompanying text.

¹⁵ 349 F. 3d at 597; 204 F. Supp. 2d at 1259.

and not the underlying musical score.¹⁶ These outcomes triggered a furor of protest and disbelief amongst musical composers over the perceived potential for unfair appropriation of their creative works.¹⁷

This article analyzes both the district and appellate court decisions in this seminal copyright case.¹⁸ This article also discusses the concept of *de minimis* use to defend against a copyright infringement claim.¹⁹ This article concludes that while the decision pays lip service to the importance of copyright protection for sound recordings and musical scores, its outcome diminishes the copyright protection of certain musical compositions.²⁰ Furthermore, these decisions place unfair, additional burdens only on some composers to protect their musical creations from digital sampling.²¹ Lastly, these decisions fail to adequately address the exploitive copying found in the practice of looping in digital sampling cases.²²

I. OVERVIEW OF CASE FACTS

Unlike most other copyright litigation, the facts of this case were largely undisputed between the parties. Plaintiff Newton was the sole author and copyright holder of the musical composition, *Choir*, one movement from his work, *The Change Suite*.²³ Newton had sold all of his rights to the sound recording to ECM Records for a flat fee of \$5,000.00.²⁴ Newton retained his copyright to the musical composition or score.²⁵ In 1992, the Beastie Boys had properly licensed the six-second sound recording from EMC Records,²⁶ paying a one-time flat fee of \$1000.00 for the sound sample.²⁷ The group looped the sound sample more than 40 times throughout their hit rap song, *Pass the Mic*, featured on their multi-platinum 1992 album, *Check Your Head*.²⁸ The sample

¹⁶ See *infra* notes 54-60, 67-79 and accompanying text.

¹⁷ See e.g., Emmett G. Price III, *Jazz Under Attack!!!*, at <http://www.allaboutjazz.com/articles/jazz1002.htm> (last visited March 7, 2005); Letter from James Newton, at <http://www.meetthecomposer.org/> (web site of the James Newton Defense Fund with Newton's personal response to his court defeats)(last visited March 7, 2005). See *supra* note 5 and accompanying text. <http://www.meetthecomposer.org/newton.html#newton> (web site of the James Newton Defense Fund with Newton's personal response to his court defeats)(last visited March 7, 2005).

¹⁸ See *infra* notes 24-86 and accompanying text.

¹⁹ See *infra* notes 36, 56-60, 74-79 and accompanying text.

²⁰ See *infra* notes 87-102 and accompanying text.

²¹ See *infra* notes 99-102 and accompanying text.

²² See *infra* notes 103-114 and accompanying text.

²³ 204 F. Supp. 2d at 1246; 349 F. 3d at 593.

²⁴ 204 F. Supp. 2d at 1246; 349 F. 3d at 593.

²⁵ 204 F. Supp. 2d at 1246; 349 F.3d at 592-93.

²⁶ 204 F. Supp. 2d at 1246; 349 F.3d at 592.

²⁷ 349 F.3d at 593.

²⁸ 349 F. 3d at 592.

appeared in two other song remixes,²⁹ and a 2002 concert DVD.³⁰ Much to Newton's chagrin, the song was also featured in the cartoon, *Beavis & Butt-head*.³¹ Both parties also conceded that *Choir* and *Pass the Mic* are not substantially similar to each other in either their overall concept or feel.³²

In May 2000, Newton filed claims of domestic and international copyright infringement, violations of the Lanham Act and misappropriation of identity.³³ The defendants successfully moved to dismiss the Lanham Act and misappropriation claims and ultimately filed for summary judgment on the remaining infringement claims.³⁴ The defendants asserted that the sampled notes as a matter of law were not protected under copyright.³⁵ Alternatively, they argued that any alleged infringement was *de minimis* and therefore not actionable under copyright law.³⁶

II. DISTRICT COURT DECISION

Judge Nora Manella's opinion considered the copyright landscape for both musical compositions and sound recordings. The lower court noted that there are two distinct copyrights, one for the musical score, and one for the sound recording. The copyright to the composition does not extend to the sound recording while the sound recording also does not extend to the score itself. The decision rejected Newton's assertion that his composition is automatically protected once it is placed in fixed form in a written score or recording. The court determined that it must dissect the separate rights retained by Newton in relation to EMC Records.³⁷

Judge Manella offered a detailed discussion of the differences between what each type of copyright protects. She noted that musical compositions deal with rhythm, harmony, and melody, requiring an analysis of the originality of the work. The musical score "captures an

²⁹ *Id.* at 593. The court indicated that the sample from *Choir* was also contained in two remixes, *Dub the Mic* and *Pass the Mic*, in the album, *Pt. 2, Skills to Pay the Bills*. *Id. See*, Teresa Wiltz, *The Flute Case That Fell Apart, Ruling on Sampling Has Composers Rattled*, WASH. POST, Aug. 22, 2002, at C01, available at <http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A47321002Aug21¬Found=true> (last visited Jan. 19, 2005).

³⁰ Wiltz, *supra* note 29, at C01.

³¹ *Id.*

³² *Id.* at 1258.

³³ 204 F. Supp. 2d at 1247.

³⁴ *Id.*; 349 F. 3d at 594.

³⁵ 204 F. Supp. at 1247.

³⁶ *Id.* The term "*de minimis*" refers to the phrase "*de minimis non curat lex*" or "the law does not concern itself with trifles." 349 F. 3d at 594.

³⁷ 204 F. Supp. at 1248-49.

artist's music in written form" protecting "the generic sound that would necessarily result from any performance of the piece." Alternatively, the copyright of the sound recording deals with "the aggregation of sounds captured in the recording or tangible medium of expression," that safeguards "the performer's rendition of the musical work."³⁸

In reviewing the musical score, Judge Manella found that Newton's musical score consisted of "a 'C' note played on the flute while the performer sings a 'C,' ascends one-half step to 'D-flat,' and descends again to the 'C'."³⁹ The musical performer sings into the flute while simultaneously fingering the notes,⁴⁰ referred to by plaintiff's experts as "the Newton technique."⁴¹ The musical score, written in the less formal jazz style, called "for between 90 and 180 seconds of improvisation,"⁴² and did not contain detailed orchestration nor any explicit time or key signatures.⁴³ This particular three-note sequence only appears once in the composition.⁴⁴

The court then weighed the conflicting expert evidence on whether this brief sequence was original and therefore deserving of copyright protection. The defendant's main expert argued that numerous musical artists had used the vocalization technique of singing and playing into the flute well before Newton used this approach. The plaintiff's experts conceded that Newton did not invent the technique, but that his breath control and unique multiphonics made his musical score original.⁴⁵ In reviewing the testimony, the court determined that the plaintiff's own experts clearly supported the contention that the plaintiff's performance of the score, not the composition itself, was distinctive.⁴⁶

The court also rejected plaintiff's assertion that any flutist would produce basically the same sounds as Newton did when playing the score.⁴⁷

³⁸ *Id.* at 1249-50.

³⁹ *Id.* at 1250. Newton indicated that he believed the pitch of the original sound recording had been "lowered slightly" in the looped sample. 349 F. 3d at 594.

⁴⁰ *Id.*

⁴¹ *Id.* at 1251. Newton indicated that his own technique of singing or "overblowing" produces original multiple pitches known as "multiphonics." *Id.*

⁴² *Id.* at 1250.

⁴³ *Id.* at 1250. The district court did find that "[t]he notation 'senza misura' (without measure) and 'largo' (slowly, broadly) appear above the first note, along with a footnote indicating that the performer must sing into the flute and finger simultaneously." *Id.* at n. 3.

⁴⁴ *Id.* at 1250.

⁴⁵ *Id.* at 1250-51.

⁴⁶ *Id.* at 1251-52, 1255-56.

⁴⁷ *Id.* at 1252. The court stated that,

At oral argument, Plaintiff's counsel suggested that any flautist performing the six-second segment would produce sounds comparable to those achieved by Plaintiff. This proposition is both unsupported by the record and contradicted by Plaintiff and his experts. Throughout this litigation, Plaintiff has insisted that the harmonic

The court determined this composition contained neither notations on the vocalization technique nor any directions on “overblowing” as had been found in some of Newton’s previous works.⁴⁸ Therefore, the court decided that the uniqueness of the work lay in Newton’s interpretation or performance techniques captured in the sound recording, not in the musical composition itself.⁴⁹

Filtering out Newton’s performance techniques, the court next turned to the issue of the originality of the remaining three-note sequence with its one background note. Newton argued that his copyright created a presumption of originality that the defendants failed to overcome. However, the court contended that even though Newton’s score was protected as a whole, “not every element of a song is protected *per se*.”⁵⁰ The court then reviewed earlier copyright precedent dealing with infringement disputes over short note sequences to support its determination that Newton’s three-note sequence lacked the required originality needed for copyright protection.⁵¹ Judge Manella added that

sounds and timbral effects achieved in his composition are a result of his unique performing techniques. His expert Dobrian confirms this. He cannot now claim that any flautist fingering a C and blowing C—D-flat—C would achieve the unique sound that results from his use of techniques not notated in the score. (footnote omitted)

Id.

⁴⁸ *Id.*

⁴⁹ *Id.* The court asserted that

In sum, what makes Plaintiff’s performance “unique,” according to his own experts, is the combination of performance techniques Plaintiff employs in the execution of his composition, consisting largely of techniques not notated in the score. (footnote omitted) It is undisputed that Plaintiff could have notated “overblowing,” as he did in other compositions. (citation omitted) Therefore, whether Defendants’ sample sounds like Plaintiff’s performance of *Choir* is not relevant to the court’s inquiry.

Id.

⁵⁰ *Id.* at 1252-53.

⁵¹ *Id.* at 1253-55. See e.g., *Jean v. Bug Music, Inc.*, 2002 U.S. Dist. LEXIS 3176, No. 00 Civ. 4022 (DC), 2002 WL 287786 (S.D.N.Y. Feb. 27, 2002)(no copyright protection for three-note sequence accompanied by the lyric “clap your hands” as it was too common to render work original); *McDonald v. Multimedia Entertainment, Inc.*, 1991 U.S. Dist. LEXIS 10649, 20 U.S.P.Q.2d 1372 (S.D.N.Y. 1991)(three-note sequence in jingle too common in traditional country western music for any copyright protection); *Intersong-USA v. CBS, Inc.*, 757 F. Supp. 274, 282 (S.D.N.Y. 1991)(alleged copying of descending scale step expression too commonly used to be copyright protectable). The court did note that some short note sequences may be copyright protectable in musical compositions if the notes are qualitatively distinct or involve the use of unusual words and/or sounds. 204 F. Supp. 2d at 1254, citing *Santrayll v. Burrell*, 1996 U.S. Dist. LEXIS 3538, 39 U.S.P.Q.2d 1052, 1054 (S.D.N.Y. 1996) (one measure “hook” and repetition of word “uh-oh” may be distinctive); *Elsmere Music, Inc. v. National Broadcasting Co.*, 482 F. Supp. 741, 744 (S.D.N.Y. 1980) (four notes and phrase “I Love” at heart of copyrighted song may be distinctive); *Tin Pan Apple, Inc. v. Miller Brewing Co., Inc.*, 1994 U.S. Dist. LEXIS 2178, 30 U.S.P.Q.2d 1791, 1793-94 (S.D.N.Y. 1994) (sounds “hugga-hugga” and “brrr”

both parties' experts agreed that the sampled note sequence from the score standing alone was not original.⁵² Therefore, the court determined that the sampled notes standing alone were neither original nor distinct, rendering the sequence unprotectable in this case.⁵³

The court then turned to defendants' other assertion that the works were not substantially similar as a matter of law and that any copying was protected under de minimis use. The defendants alleged that even if Newton's note sequence was original, that the copying was so trivial that it did not meet the threshold requirements of a misappropriation.⁵⁴ Typically, copying is viewed as de minimis "if the average audience would not recognize the misappropriation."⁵⁵

In this case, the court also examined the defendants' copying under the concept of "fragmented literal similarity."⁵⁶ This principle relates to situations in which a small amount of a work is copied into a new song without stealing the original work's overall essence or structure. In these instances, the courts will examine whether or not the sample copied is either quantitatively significant or qualitatively important to the original copyrighted work to be substantially similar and actionable under copyright.⁵⁷ The court does not look at how the sample was used in the new work, meaning that it does not matter how the sample was used or how many times Beastie Boys looped the sound sample through *Pass the Mic*.⁵⁸

Quantitatively, the district court determined that the sampled notes only made up about two percent of the four and one-half minute work of *Choir*. Also, the brief note sequence only appeared once in the entire work. The court suggested that the quantity of notes was even less significant if viewed within the context of the multi-movement song, *The Change Suite*, rather than the single movement of *Choir*.⁵⁹

Furthermore, the sequence was not qualitatively important as the court had already determined that the three-note sequence with its background note was neither original nor distinct. In addition, the note

in Plaintiff's composition sufficient to warrant copyright protection).

⁵² *Id.* at 1254.

⁵³ *Id.* at 1256. The court indicated that precedents in other courts have similarly "held that such small and unoriginal portions of music cannot be protected by copyright." *Id.*

⁵⁴ *Id.* at 1256-57.

⁵⁵ *Id.* at 1258, citing *Fisher v. Dees*, 794 F.2d 432, 435 n.2 (9th Cir. 1986). The appellate court relied heavily on the *Fisher* case in affirming the lower court's decision. See *infra* notes 66-69 and accompanying text.

⁵⁶ 204 F. Supp. 2d at 1257. See *infra* notes 65 and 74 and accompanying text.

⁵⁷ *Id.*

⁵⁸ *Id.* But see, *Wilson supra* note 3, at 192-93 (author calls for moving beyond qualitative and quantitative analysis of original work to consider quantitative and qualitative "observability" of looped sound samples in new work).

⁵⁹ *Id.* at 1257-58, n.11.

sequence appeared only once and did not comprise a distinctive hook and did not appear to be central to Newton's musical score. Although the court noted that some might recognize the sample due to Newton's vocalization technique that aspect of the work was properly licensed as a sound recording from EMC Records.⁶⁰ Therefore, the court concluded that even if Newton's work was copied, the copying was de minimis and not actionable under copyright law. The court granted the defendants motions for summary judgment.⁶¹ Newton appealed the case to the Ninth Circuit.⁶²

III. NINTH COURT DECISION

A. *The Majority Opinion*

The three-judge panel brushed aside the district court's lengthy discussion on whether or not Newton's note sequence was original or distinctive.⁶³ Assuming arguendo that the work was original, the court moved directly into affirming the district court's decision based solely on a finding of de minimis use.⁶⁴ The appeals court reiterated the notion that there must be a substantial similarity between each party's work and that the copying must be substantial enough to allow for an infringement action to proceed.⁶⁵

The appeals court turned to a review of *Fisher v. Dees*⁶⁶ as the circuit's leading precedent on de minimis use.⁶⁷ In *Fisher*, an earlier Ninth Circuit court considered a parody of the 1950s song, *When Sunny Gets Blue*, called *When Sonny Sniffs Glue*. The parody copied six of the thirty-eight bars of the song making only minor revisions to the song's lyrics.⁶⁸ In that case, the court rejected the de minimis defense because the amount of copying from the original song was both qualitatively and

⁶⁰ *Id.* See *supra* notes 24, 26 and accompanying text.

⁶¹ *Id.* at 1260.

⁶² 349 F. 3d at 594.

⁶³ 349 F. 3d at 594. The court stated that it "need not reach each ground relied upon by the district court." *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.* The court stated that,

The principle that trivial copying does not constitute actionable infringement has long been a part of copyright law. Indeed, as Judge Learned Hand observed over 80 years ago: "Even where there is some copying, that fact is not conclusive of infringement. Some copying is permitted. In addition to copying, it must be shown that this has been done to an unfair extent." (citation omitted)

Id.

⁶⁶ 794 F.2d 432 (9th Cir. 1986).

⁶⁷ *Id.*

⁶⁸ *Id.* at 594-95.

quantitatively significant. The new song copied a substantial portion of the lyrics and appropriated the main theme of the original standard.⁶⁹

To assess the nature and extent of the copying, the appeals court followed the approach of the district court in filtering out the performance aspects of the sound recording which the Beastie Boys had properly licensed.⁷⁰ As with the lower court, the appellate court noted that Newton's own experts had emphasized Newton's unique performance style in producing the sounds attributed to the "Newton technique."⁷¹ The court recognized that the minimal scoring found in the improvisational jazz tradition meant that Newton's score provided a basic direction for the piece, but that his recorded performance went well beyond the contours of the written score.⁷² Therefore, the court determined that the Newton technique was captured in the sound

⁶⁹ *Id.* at 595. The court ultimately found for the defendants under fair use as a parody. *Id.* For the parody to be successful, the new work must undertake significant copying to help the audience recognize and appreciate the nature of the parody. *Id.* See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) (Supreme Court upheld significant copying of distinctive guitar riff and revision of music lyrics in 2LiveCrew parody of Roy Orbison's classic song, *Pretty Woman*, under fair use).

⁷⁰ 349 F. 3d at 595. The court indicated that,

Because the defendants licensed the sound recording, our inquiry is confined to whether the unauthorized use of the composition itself was substantial enough to sustain an infringement claim. Therefore, we may consider only Beastie Boys' appropriation of the song's compositional elements and must remove from consideration all the elements unique to Newton's performance. Stated another way, we must "filter out" the licensed elements of the sound recording to get down to the unlicensed elements of the composition, as the composition is the sole basis for Newton's infringement claim....

Whatever copyright interest Newton obtained in this "dense cluster of pitches and ambient sounds," he licensed that interest to ECM Records over twenty years ago, and ECM Records in turn licensed that interest to Beastie Boys. Thus, regardless of whether the average audience might recognize "the Newton technique" at work in the sampled sound recording, those performance elements are beyond consideration in Newton's claim for infringement of his copyright in the underlying composition. Having licensed away his interest in the recording of his performance, Newton's only claim is for a violation of his rights in the three-note sequence transcribed in the composition.

Id. at 595-96.

⁷¹ *Id.* The court quotes two of Newton's own experts, Dr. Olly Wilson, University of California at Berkeley, and Dr. Christopher Dobrian of the University of California, Irvine, to support its contention that the "Newton technique" is rooted in his performance of the work, and not in the musical score itself. *Id.*

⁷² *Id.* at 595. Newton's experts reinforced this view with both Drs. Dobrian and Wilson testifying about the minimal scoring in jazz compositions and the role of the performer in bringing out individual subtleties in the work. *Id.* See *supra* note 70 and accompanying text.

recording of the performance, and not in the details of the underlying musical composition.⁷³

Looking to the concept of fragmented literal similarity, the appeals court then applied the same quantitative and qualitative utilized in the district court's decision with the same results.⁷⁴ Quantitatively as previously determined by the district court, the three-note sample only appeared once in the score of *Choir*, lasted about six seconds in a four and one-half minute song, and comprised only about two percent of the entire work.⁷⁵ Qualitatively, the appeals court agreed with the district court that the sampled section was not any more distinctive than any other aspects of the work and "did not represent the heart or the hook of the 'Choir' composition."⁷⁶

The appeals court also noted that the group's looping of the sample throughout their new work had no bearing on the court's analysis which looks solely at the appropriations from the original work, not its use in the new one.⁷⁷ The appeals court reasoned that

[t]his focus on the sample's relation to the plaintiff's work as a whole embodies the fundamental question in any infringement action, as expressed more than 150 years ago by Justice Story: whether "so much is taken that the value of the original is sensibly diminished, or the labors of the original author are substantially to an injurious extent appropriated by another." (citation omitted) Courts also focus on the relationship to the plaintiff's work because a contrary rule that measured the significance of the copied segment in the defendant's work would allow an unscrupulous defendant to copy large or qualitatively significant portions of another's work and escape liability by burying them beneath non-infringing material in the defendant's own work, even where the average audience might recognize the appropriation.⁷⁸

After filtering out Newton's performance techniques found in the sound recording, the appeals court added that Newton's experts had not shown that the sample was either quantitatively or qualitatively significant. The appeals court concluded that the average audience would not recognize the de minimis sample used in the Beastie Boys' song once separated from Newton's unusual performance style captured in the sound recording.⁷⁹

⁷³ *Id.* at 596.

⁷⁴ *Id.* at 597-98.

⁷⁵ *Id.* at 597.

⁷⁶ *Id.* at 597-98.

⁷⁷ *Id.* at 597.

⁷⁸ *Id.* at 597-98.

⁷⁹ *Id.* at 598.

B. The Dissenting Opinion

Judge Graber agreed with the majority's assumption as to the originality of Newton's sampled score. However, he noted that despite correctly identifying the applicable legal principles, the majority had overstepped its bounds by making factual judgments about the evidence presented.⁸⁰ Although approving of the majority's view that Newton's talent added much to the final work, he contended that there was enough evidence from two of Newton's experts to support the claim that the sample was "compositionally distinct."⁸¹ He added that Newton had presented expert testimony that the sampled sequence could be recognized even if played by a student flutist in a middle school band concert.⁸²

The dissenting judge admonished the majority for oversimplifying the note sequence in dispute, arguing that four notes, rather than three were involved and could be found to be as distinctive and recognizable as the opening four notes of Beethoven's Fifth Symphony.⁸³ He also chastised the majority for usurping the role of fact-finders by weighing and then emphasizing the testimony of the defendants' experts over Newton's experts in the case.

Judge Graber indicated that two of Newton's experts had clearly distinguished between the sound recording and the musical score, supporting the distinctive or unique nature of the underlying musical composition on its own.⁸⁴ He added that the majority, then, misreads the record when it states that Newton failed to offer evidence that the sampled material is qualitatively significant. In fact, Newton presented evidence, as described above, to show that an average and reasonable listener would recognize Beastie Boys' appropriation of the *composition* of the sampled material (footnote omitted). Because Newton has presented evidence establishing that reasonable ears differ over the qualitative significance of the composi-

⁸⁰ *Id.*

⁸¹ *Id.* at 598-99.

⁸² *Id.* at 598.

⁸³ *Id.* at 598-99.

⁸⁴ *Id.* at 599-600. The dissent discussed supportive letters from Drs. Wilson and Dobrian that indicate that the underlying score standing alone is distinctive. *Id.* at 600. He also quoted Professor Wilson's letter in which the music expert states that,

[T]he score clearly indicates that the performer will simultaneously sing and finger specific pitches, gives a sense of the rhythm of the piece, and also provides the general structure of this section of the piece. Hence, in my opinion, the digital sample of the performance...is clearly a realization of the musical score filed with the copyright office.

Id. See *supra* note 71 and accompanying text.

tion of the sampled material, summary judgment is inappropriate in this case.⁸⁵

The judge concluded that since Newton had provided evidence of the qualitative significance of the sampled segment, then he should have been allowed to make his case before a jury.⁸⁶

IV. IMPACT OF DECISION

In the past, it was assumed that those sampling music were expected to secure copyright permission for both the sound recording and the underlying score in an effort to respect the rights of both copyright owners.⁸⁷ On its face, the *Newton* decisions continue to recognize the separate copyrights for sound recordings and musical scores in a seeming effort to protect the creative work of musicians and composers.⁸⁸ However, with their application of de minimis use, a growing gap in the protections afforded sound recordings versus musical scores is evolving in digital sampling cases that is not warranted under copyright law.

Several digital sampling decisions involving sound recordings have found *per se* infringement of sound recordings, even if only one note has been copied.⁸⁹ In the recent *Bridgeport Music* decision, the court determined that copying of a single note from a sound recording was *per se* infringement.⁹⁰ That court proclaimed as to sound recordings “Get a license or do not sample.”⁹¹ A similar approach should be taken when musical scores are being sampled in a new, derivative work.

⁸⁵ *Id.*

⁸⁶ *Id.* at n. 3, citing *Worth v. Selchow & Righter Co.*, 827 F.2d 569, 570 n.1 (9th Cir. 1987) (court determined that “qualitative importance of the material to the plaintiff’s work is more significant than a quantitative calculation of the portion allegedly appropriated by the defendant”).

⁸⁷ See *Blessing*, *supra* note 1, at 2407-08; *Cuomo*, *supra* note 1, at 181; *Latham*, *supra* note 1, at 124-25; *Szymanski*, *supra* note 6, at 298-99.

⁸⁸ 204 F. Supp. 2d at 1248-49. See *supra* note 37 and accompanying text.

⁸⁹ See e.g., *Bridgeport Music, Inc. v. Westbound Records, Inc.*, 383 F. 3d 390 (6th Cir. 2004) (overruling district court’s de minimis ruling in determining that three-note sound recording sample contained in rap song, “100 Miles and Runnin’” must be licensed from copyright holder); *Williams v. Broadus*, 2001 U.S. Dist. LEXIS 12894, No. 99 Civ. 10957 MBM, 2001 WL 984714 (S.D.N.Y. Aug. 27, 2001) (rejected summary judgment in copyright lawsuit brought against Calvin Broadus, a.k.a. “Snoop Dogg” for sampling music from hip-hop song “The Symphony” and Otis Redding’s song “Hard to Handle”); *Grand Upright Music, Ltd. v. Warner Bros. Records*, 780 F. Supp. 182 (S.D.N.Y. 1991) (finding *per se* infringement for rapper Biz Markie’s sampling from Gilbert O’Sullivan’s song “Alone Again (Naturally)”).

⁹⁰ 383 F. 3d at 398-99. See *Renee Graham, Will ruling on samples chill rap?*, THE BOSTON GLOBE, Sept. 14, 2004, at 1-2, available at <http://www.boston.com> (last visited Jan 19, 2005).

⁹¹ 383 F. 3d at 398.

In *Bridgeport Music*, the court struggled with the issue of why taking three notes from a musical composition is acceptable as in *Newton*, but unacceptable when sound recordings are involved.⁹² The court somewhat unconvincingly contends that differences in statutory language and the fact that there is “physical taking rather than an intellectual one” justify its differing treatment of musical compositions and sound recordings.⁹³ This approach seems to contravene the explicit provisions of the copyright statute which provides more rights to copyright holders of musical compositions, than copyright owners of sound recordings.⁹⁴

The *Bridgeport Music* court also did not deny that there is a taking of the creative work of another without payment or permission.⁹⁵ In

⁹² *Id.* at 399. The court stated that “[t]his analysis admittedly raises the question of why one should, without infringing, be able to take three notes from a musical composition, for example, but not three notes by way of sampling from a sound recording.” *Id.*

⁹³ *Id.*

⁹⁴ Latham, *supra* note 1, at 125-26; Szymanski, *supra* note 6, at 299. Under copyright law, copyright holders of musical compositions have are entitled to [T]he exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly....

17 USCS § 106(1-5) (2004).

The *Newton* decisions did not address why a digital sample placed in a new song is not a derivative work of the musical score requiring permission or licensing under existing copyright law. Also, since the Beastie Boys performed the song in concerts and on a DVD, it is unclear why their use of the score did not violate Newton’s exclusive rights to perform his musical composition.

On the other hand, holders of sound recordings possess more restricted rights. Under the code, they are entitled to the rights outlined in subsections 1, 2, and 3 of section 106, but not subsections 4 and 5 on performance and display. *Id.* at §114(a). They have “the exclusive rights....to perform the copyrighted work publicly by means of a digital audio transmission.” *Id.* at §106(6). They also possess “the exclusive rights....to perform the copyrighted work publicly by means of a digital audio transmission.” *Id.* at § 106 (6). Their rights are primarily “limited to the right to prepare a derivative work in which the actual sounds fixed in the sound recording are rearranged, remixed, or otherwise altered in sequence or quality.” *Id.* at § 114 (b).

⁹⁵ *Id.* at 398-99. The court indicated that creativity would not be stifled by its *per se* approach. The court asserted that musicians could be hired to duplicate the required sounds or that market forces would help control the pricing of samples. *Id.*

considering the issue of *per se* infringement for sound samples, the court stated that,

[S]ampling is never accidental. It is not like the composer who has a melody in his head, perhaps not even realizing that the reason he hears this melody is that it is the work of another which he had heard before. When you sample a sound you know you are taking another's work product.⁹⁶

Clearly, this same reasoning can be applied in the *Newton* case. The Beastie Boys do not deny that they intentionally sampled Newton's music and actually admitted taking the "best bit" of *Choir*.⁹⁷ But under *Newton*, they need not license their derivative use of the underlying score for that musical gem.⁹⁸

Furthermore, the *Newton* decisions appear to suggest a bias in favor of the detailed notation of classical composers.⁹⁹ Jazz composers have traditionally used a more informal approach to scoring with more scant musical direction and greater reliance on improvisation.¹⁰⁰ Under

⁹⁶ *Id.* at 399.

⁹⁷ 204 F. Supp. 2d at 1259.

⁹⁸ See Szymanski, *supra* note 6, at 286. The author contends that "rap artists like the Beastie Boys reproduce music whereas frequently sampled artists like James Brown produce music. This is not so much a value judgment as an observation about technique." *Id.*

⁹⁹ In a press release after the decision, Alan Korn, James Newton's attorney stated that "This decision sets a dangerous precedent for all composers and music publishers, because it is the first time a court has ruled it is only necessary to license a sound recording, and not the underlying composition, when using a digital sample. By ignoring the sound of a musical work when analyzing its originality, the court also appears to have created a new standard that is less protective of non-notated 20th Century musical forms, including jazz, electronic, avant-garde and ethnic music. Press Release, James Newton, In Court (May, 2002), at <http://www.meetthecomposer.org/newtonletter> (last visited March 7, 2005).

In that same press release, James Newton asserted that,

This decision is extremely troubling. It ignores my twenty-three years of international recognition, and my freedom of cultural expression by insisting that my work fit within a European paradigm to be protected. Beastie Boys have stolen my musical expression... that celebrates God's place in the African-American struggle for freedom in this country.

Id.

¹⁰⁰ The *Newton* appellate court recognized that, "...given the nature of jazz performance and the minimal scoring of the composition...[t]he copyrighted score of "Choir", as is the custom in scores written in the jazz tradition, does not contain indications for all of the musical subtleties that it is assumed the performer-composer of the work will make in the work's performance. The function of the score is more mnemonic in intention than prescriptive. 349 F. 3d at 595. See Price, *supra* note 17, at 4-5 (jazz expert asserts that case reinforces

Newton, jazz composers must either notate their work like classical composers, jotting down in detail any unique compositional or performance aspects to avoid losing copyright protections in subsequent digital sampling disputes. Some critics see this decision as reinforcing perceived racial bias in copyright law, while others view it as stifling jazz composers' innovative scoring styles.¹⁰¹ The copyright laws are intended to promote and protect creativity, not constrict it into narrow channels of acceptable scoring approaches. The *Newton* and *Bridgeport Music* decisions endanger the full and fair protection of the rights of copyright owners of musical compositions, especially in the jazz world, in an ever-growing environment of digital sampling.

Taken together, the *Newton* and *Bridgeport Music* decisions permit a weakening of copyright safeguards for musical compositions, while strengthening the copyright protection for the same or smaller snippets of music found in sound recordings. While copyright holders of sound recordings will benefit from bright line rulings requiring licensing of any sound sample, the copyright holders of musical scores must battle out their rights awaiting costly and time-consuming case-by-case applications of a subjective qualitative and quantitative analysis of their underlying score.¹⁰² The burden now falls solely on composers or owners

notion of western European music as "serious" and African-based jazz music as "primitive" and therefore unworthy of full legal protection). See *supra* note 42 and accompanying text. See *infra* note 101 and accompanying text.

¹⁰¹ Price, *supra* note 17, at 4-5; Wiltz, *supra* note 29, at C01. Renowned jazz pianist and composer, Billy Taylor contended that,

If I create something, whether I create it in my head or on some electronic machine, it's just as finite as if I write it on a sheet of paper. It doesn't matter if it's not written down if it's something he created, whether he whistled it or hummed it....[The *Newton* decision] sounds racist to me. Pure English. Here's a [judge] who's saying if it's not written in the old European form that I may have heard about from someone who studied Mozart, [it's not a legitimate composition].

Wiltz, *supra* note 29, at C01. See Kartha, *supra* note 6, at 220-21 (author asserts that jazz historically viewed through racist lens as "primitive" artistic expression of African-American artists, only becoming acceptable once white businessman and white musicians transform it into profitable "white" music).

¹⁰² The *Bridgeport Music* decision noted the difficulty in dealing with sampling disputes on a case-by-case basis.

This case also illustrates the kind of mental, musicological, and technological gymnastics that would have to be employed if one were to adopt a *de minimis* or substantial similarity analysis. The district judge did an excellent job of navigating these troubled waters, but not without dint of great effort. When one considers that he has 800 other cases all involving different samples from different songs, the value of a principled bright-line rule becomes apparent. We would want to emphasize, however, that considerations of judicial economy are not what drives this opinion. If any consideration of economy is involved it is that of the music industry. As this case and other companion cases make clear, it would appear to be cheaper to license than to litigate (footnote omitted).

of musical compositions to show that the stolen notes are qualitatively or quantitatively significant in order to seek compensation for their creative work. These differing approaches seem to devalue the importance of copyright protections for musical scores, but not sound recordings, in digital sampling disputes.

V. UNANSWERED QUESTIONS

The *Newton* decisions have left largely unanswered the issue of looping. Both opinions continue to focus on the work appropriated from the original work without any regard to the unfair and exploitive nature of copying or “looping” of this work in the new song.¹⁰³ The Beastie Boys admitted that they used “the best bit” from *Choir*, and then looped it more than 40 times throughout the work. In essence, under *Newton*, musicians and sound engineers may still be able to intentionally appropriate three or four notes from a musical score and constantly loop them into a new work without paying for any license fees or royalties to the owner of the composition, even if the sample makes up a qualitatively and quantitatively prominent role in the new work.¹⁰⁴

Two options are available to deal with the looping issue. One approach is to augment the qualitative and quantitative analysis of de minimis with an analogy to the observability analysis¹⁰⁵ found in *Ringold v. Black Entertainment, Inc. (BET)*.¹⁰⁶ Faith Ringold sued BET and HBO for featuring her copyrighted art work, *Church Picnic Story Quilt*, contained in a poster as part of a set decoration in an episode of

Id. at 399-400. See, Latham *supra* note 1, at 124, 146-47 (continuing settlements in digital sampling disputes arise from failure of courts to identify clear legal standards for infringement); Rebecca Morris, *When Is a CD Factory Not Like a Dance Hall?: The Difficulty of Establishing Third-Party Liability for Infringing Digital Music Samples*, 18 CARDOZO ARTS & ENT. L.J. 257, 274 (2000) (author argues that lack of predictable bright-line rules in sampling cases leads to dispute settlements to avoid costly, ad hoc trial results); Wilson, *supra* note 3, at 179, 194 (contending that sparse judicial guidance on unlawful appropriation has resulted in numerous settlements in digital sampling cases).

¹⁰³ See Wilson, *supra* note 3, at 193.

¹⁰⁴ *Id.* The author also hypothesizes that under the traditional qualitative and quantitative analysis,

....an artist may record an entire compact disc worth of de minimis samples and then loop the de minimis samples so that they become quantitatively paramount in the infringed work. The artist may then avail herself of the de minimis defense because the amount of copying from the original work was de minimis.... Unless the sample was qualitatively paramount in the original work, the infringer may effectively embrace the de minimis defense even if the instrumentation in his work does not contain newly recorded music.

Id.

¹⁰⁵ Wilson, *supra* note 3, at 190-92.

¹⁰⁶ 126 F. 3d 70 (1997). See Wilson, *supra* note 3, at 190-92.

their TV sitcom, *Roc*, in 1992 and 1994.¹⁰⁷ In a 1995 rebroadcast of the episode, Ringgold noticed the use of her copyrighted work.¹⁰⁸

In applying de minimis use, the court did not restrict its analysis to a qualitative and quantitative analysis of the amount appropriated from the original work. Augmenting the traditional analysis, the *Ringgold* court considered an “observability” approach based on how much of and the amount of time the original copyrighted material was featured in the new work (quantitative) and its overall importance in that new work (qualitative).¹⁰⁹ The court examined the duration of time the copyrighted poster was in partial view during the new program and how much of the poster was sufficiently observable by the “average lay observer” in the new work.¹¹⁰ The court concluded that the display of up to eighty percent of the copyrighted poster nine times for a total of twenty-seven seconds in a television program amounted quantitatively to an infringement.¹¹¹ The court also found qualitatively that the poster, even if not always in focus, clearly was selected for its thematic relevance and decorative value on the program set.¹¹² Applying this additional observability step in the *Newton* case, the court could have reached a different conclusion by reviewing quantitatively how much time the looped sample with its underlying score was used in the new piece as well as the qualitative prominence of this “best bit” in the new song.

¹⁰⁷ *Id.* at 72-73. Her work depicted a Sunday school picnic in the early 1900s at an African-American Baptist church. *Id.* at 71. The TV sitcom, *Roc*, focused on the trials and tribulations of a middle class African-American family in present day Baltimore. *Id.* at 72.

¹⁰⁸ *Id.* at 73.

¹⁰⁹ 126 F. 3d at 77.

¹¹⁰ *Id.*

¹¹¹ *Id.* at 76-77. The court indicated that the poster was revealed as short as 1.86 seconds to as long as 4.16 seconds. In the longest segment of four to five seconds use, about eighty percent of the poster was visible, although not in perfect focus. *Id.* at 76.

¹¹² *Id.* at 77. The court soundly rejected the defendants’ claim that the average TV audience saw nothing more than ‘some vague stylized [sic] painting that includes black people.’ *Id.* The court contended that this claim is

like saying that a videotape of the Mona Lisa shows only a painting of a woman with a wry smile. Indeed, it seems disingenuous for the defendant HBO, whose production staff evidently thought that the poster was well suited as a set decoration for the African-American church scene of a ROC episode, now to contend that no visually significant aspect of the poster is discernible....The painting component of the poster is recognizable as a painting, and with sufficient observable detail for the “average lay observer,” (citation omitted) to discern African-Americans in Ringgold’s colorful, virtually two-dimensional style. The de minimis threshold for actionable copying of protected expression has been crossed.

Id.

While the added observability standard may prove helpful in some instances, it still leads to confusion and inconsistent findings offering little clear guidance to musicians, composers, sound engineers, and the recording industry as a whole. It may be simpler and clearer to merely state that if one must license a digital sample of a sound recording then the underlying score which yielded the sound recording must also be licensed.¹¹³ Although some may complain about the potential costs of licensing even one-note samples, surely it is far more expensive and time-consuming to battle these disputes in courtrooms throughout the country.¹¹⁴

VI. CONCLUSION

The *Newton* decisions depart from the bright line rule that those who sample must obtain a license for both the sound recording and the underlying musical composition. This important change signals the weakening of copyright protections for musical scores, not warranted under the existing copyright statute. The application of the qualitative and quantitative analysis of de minimis is insufficient to promote and protect the creative efforts of musical composers and places an unfair burden only on some musical composers in order to stave off sampling of their artistic works. These decisions also fail to adequately address exploitive copying in the digital sampling practice of looping. With the ever-increasing use of digital sampling in the recording industry, courts should establish clear rules to safeguard both sound recordings and musical scores. A *per se* infringement approach that requires the licensing of both the sound recording and the underlying score for any digital samples can provide both certainty and fairness for all creative musical artists. Leveling the playing field between sound and compositional copyrights is the best way to fairly promote and equitably protect musical creativity as intended under our copyright laws.

¹¹³ See *supra* notes 90-91 and accompanying text.

¹¹⁴ See *supra* note 102 and accompanying text.

NO MORE SMOKE IN THOSE SMILING IRISH EYES: THE 2004 SMOKING BAN

by CAROL DAUGHERTY RASNIC*

...a woman is only a woman,
but a good cigar is a smoke.
The Betrothed,
Rudyard Kipling (1865-1936)

Perhaps no venue best invokes visions of smoke-filled camaraderie than does the Irish public house—*i.e.*, the pub. On the Emerald Isle, the pub is a veritable institution, and the attendant smoke with the omnipresent Guinness has always been its essence. The pub remains, but in 2004, the Irish legislature (the *Oireachtas*) adopted legislation banning smoking in all public places, including public houses, restaurants, hotels, guesthouses, groceries, and retail stores.

This article will explain the legal road to a now-smokeless Ireland, the resulting controversy, and the implementation of the overall smoking ban. Although some references will be made to American law for purposes of comparison, the primary focus is on the statute in Ireland and how the populace has dealt with legislation viewed by many as an intrusion on both personal and property rights.

SUPRANATIONAL GUIDELINES

The World Health Organization, a United Nations body, adopted a framework guideline effective February 24, 2005 that requires signatory

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nations to “actively promote the adoption and implementation of effective legislation... providing for protection from exposure to tobacco smoke... in public places.” There are currently fifty-seven countries with a total population of 2.3 billion people which have signed this framework convention (not including the U.S.A.).¹ Contrary to packaging labels, which warn the user himself, the introduction of such mandates recognizes the danger to non-smokers of passive tobacco smoke.

At the European Union level (Ireland has been a member of the EU since 1973), there has been evidence of acknowledgement of the hazards of such passive smoke, generally referred to in Europe as environmental tobacco smoke.² Despite this concern, no common European approach that would mandate a smoking ban for EU member states appears to be a policy objective.³

Significantly, the European Commission must be notified by member states’ legislatures prior to passage of most domestic bills into law. This is in order to assure compliance with EU Technical Standards Directives.⁴

THE 2004 SMOKING BAN IN IRELAND

The federal government in Ireland was the first in Europe to adopt a complete prohibition of smoking in public places. The Irish legislation, effective on March 29, 2004, has been followed by similar laws in Norway (not a European Union member state), effective June 1, 2004, and Sweden, effective June 1, 2005.⁵ Italy passed such a statute in early 2005.

To describe such a proscription on smoking in Ireland as controversial would be analogous to referring to the 2004 World Series victory of the Boston Red Sox as a minor comeback. The legendary ambiance of the Irish pub connotes images of a smoke-filled dark and musty room, with the wafting of cigarette smoke as much an integral part of the atmosphere as are the beer and the traditional music.

¹ Article 8, World Health Organization Framework Convention on Tobacco Control. Available at <http://www.who.int/mediacentre/news/releases/2005/pr09/en/index/html>.

² A listing of European Community measures addressing tobacco control is available at [#4](http://www.europa.eu.int/comm/health/horiz_legal.html)

³ See, e.g., EU Commissioner for Public Health and Consumer Protection David Byrne, March 6, 2004, on webpage of BRITISH MEDICAL JOURNAL. (Byrne is former Attorney General of Ireland.)

⁴ Council Directives 98/34 EC and 98/48 EC, dates?

⁵ See Marc McDonald, *‘It’s a Breath of Fresh Air’—the Irish Smoking Ban in Hospitality Premises*, 3 INTERNATIONAL TRAVEL LAW JOURNAL 157, n. 8 (2004). In early 2005, Italy adopted a ban similar to the law in Ireland.

Preliminary legal matters

Unlike American federal law, Irish law can take the form of primary legislation or “delegated” legislation. The latter is similar, but not identical, to regulations adopted by U.S. federal administrative bodies that are published in the Code of Federal Regulations. A cabinet-level minister⁶ in Ireland, on the other hand, is actually granted much more latitude than is his American counterpart, such that he might draft legislation that will have the same force as a statute passed by the legislature.⁷ One characteristic of such “delegated legislation” is that it is not accompanied by the tedium of debate and requirement for majority vote.

It was the delegated legislative form that Minister for Health and Children Micheal Martin originally planned for the smoke prohibition. However, fears that components from the hospitality industry would merge to attack the ban on constitutional grounds (*e.g.*, an unconstitutional “taking” of a business’ property rights⁸ by adversely infringing upon earning powers) and an improper use of the delegated form of legislation altered this decision. Additionally, as in the United States federal regulatory process, delegated legislation in Ireland requires a consultation or comment period. Passage of a smoking ban by the *Dail* would eliminate this necessity.

The fear with respect to constitutionally-based attacks against the ban was likely not the primary rationale behind Martin’s choice, because the Irish courts have generally upheld some encroachment on a constitutional right if justified for the common good.⁹ Moreover, the constitutional right of property ownership contains a proviso that “the exercise of such rights might be regulated by the principles of social justice.”¹⁰

⁶ In the parliamentary form of government, the ministers (or members of the cabinet) are appointed by the prime minister (*Taoiseach* in Irish Gaelic) from among elected legislators. The prime minister himself is a member of the legislature. He is the head of the party with the greatest number of elected members of the parliament.

⁷ The legislature in Ireland is the *Oireachtas*, comprised of the *Dail* and the *Seanad* (Senate). It is the 160-member *Dail* that it is the true law-making body. The *Seanad* places a secondary role. Articles 20-22 *Bunracht na hEireann* (Constitution of Ireland) contains the law-making process in Ireland.

⁸ Article 43(1)2, *Bunracht na hEireann* [1937 Constitution of Ireland] assures the right of private ownership of property.

⁹ The Supreme Court of Ireland has held that such right is not absolute, but rather is subject to constraints if needed for the common good. *Hand v Dublin Corporation* [1991], 1 I.R. 409. For a parallel under U.S. law, see *NLRB v. Jones & Laughlin*, 301 U.S. 1 (1937), where the Supreme Court of the United States upheld the Wagner Act as a permissible encroachment on the constitutional right of an employer to choose its workers, in order to allow those workers the statutory right to associate and join a union.

¹⁰ Article 43(2)1 *Bunracht na hEireann*..

Significantly, the less forceful delegated status suggested that the *Dail* should be the body to enact the smoking ban. Similar to American legal challenges that a regulatory body has exceeded its statutory authority, there was the danger that a court might view this measure to be one reserved for the legislature.¹¹ The Supreme Court of Ireland has held that delegated legislation should be reserved for details required to implement broader policies stated in primary legislation.¹² In the event such an attack had been mounted on this ground, adoption of an enforceable smoking ban would have been considerably delayed.

Other legal challenges were possibilities. The proportionality of the law might have been questioned, that is, that it was over-invasive with regard to the assertion of an alleged right to smoke. Generally, the proportionality argument was considered among legal circles as being without merit, because the measure limited a private, rather than a public, right.¹³ Similarly, any separation of powers argument would likely have been futile, since such health measures have been regarded in general as within the realm of the legislature.¹⁴ Any constitutional right to smoke in Ireland is dubious, at best.¹⁵

The most likely legal argument opposing the law would have been the right of restaurant and pub proprietors that issues of unfair competition would arise. This position presupposes that border establishments would be affected by the likelihood that clientele would cross into Northern Ireland (part of the United Kingdom) to patronize other facilities where smoking was prohibited. Also, membership in the European Union includes the common market principle, one which includes consumer protection concepts. For example, a German tourist who had purchased a package holiday to Ireland with expectations of the conviviality of the pub that is associated with the Ould Sod might feel that he had received less than what he had bargained for. If he were a smoker, his level of enjoyment would possibly have been minimized.¹⁶

A more philosophical objection would be the paternalistic nature of the ban whereby the government assumes the role of a nanny state. It has generally been conceded that the preventive aspect for the smoker himself is ancillary to the object of the law, that is, the protection of non-

¹¹ For discussion of such holding, see, e.g., JAMES CASEY, *CONSTITUTIONAL LAW OF IRELAND* 224 (Round Hall, Sweet and Maxwell, 3d ed. 2000).

¹² See, e.g., *Mulreevy v. Minister for Environment, Heritage and Local Government* [2004] I.E.S.C. page?

¹³ See Keith Spencer, *The Right to Smoke? Constitutional Implications of the Smoking Ban*, Part I, 22 *THE IRISH LAW TIMES*, 58, at 63, Feb. 28, 2004.

¹⁴ *Id.* at 70, referring to an American case, *Borealis v. Axelrod*, 130 App. Div. 2d 107, 518 N.Y.S. 2d 440 (1987).

¹⁵ *Id.* at 62.

¹⁶ See McDonald, *supra* note 5, at 166.

smokers.¹⁷ Even John Stuart Mill, who avidly supported personal freedoms and individual autonomy, acknowledged that there are indeed situations which call for governmental intrusion on one's freedom if justified for the health or welfare of others. The erudite Mill qualified this opinion by insisting that the burden of proving a justification of such an intrusion should be upon the government, rather than upon the one whose freedom is the object of such interference.¹⁸

After delays occasioned largely by reason of EU procedural requirements and other postponements associated with governmental bureaucracy,¹⁹ the smoking ban which was to have come into effect on January 1, 2004, finally became effective on March 29, 2004. The delay seemed merely to have prolonged the anticipated agony of a statutory D-day, doomsayers prognosticating a devastating loss of business for publicans and the demise of the Irish pub. Tadhg O'Sullivan, Chief Executive of the Vintners' Federation of Ireland, predicted a fate much like that suffered by the New York bar industry after the state statutory ban, a thirty to forty percent loss of business.²⁰ He had advocated the inclusion in the Irish statute of a provision similar to that in the New York law that would allow for waivers for business that could produce evidence of a substantial loss of profits.²¹ Despite O'Sullivan's efforts, such a provision was never seriously discussed by the *Dail*.

Interestingly, only one legislator from the 160 in the *Dail*, Finian McGrath, a socialist and trade unionist, voted against the ban. He insisted that at least forty to fifty of his colleagues were personally opposed, but were reluctant to vote their preference because of potential party backlash. He added that the statute was subject to attack because of the absence of union consultation.²² McGrath's comment showed a dearth of comprehension of the legislative process, since such consultation is required only for delegated, not primary, legislation.²³ Sam Smyth, editorialist for the *Irish Independent*, favored the ban in principal, but cautioned that Minister Martin may be on his way to being "seduced by the cheap perfume of political correctness."²⁴

¹⁷ Eileen King, *Paternalism and the Law*, 4 UNIVERSITY COLLEGE DUBLIN LAW REVIEW 134, 136 (2004).

¹⁸ *Id.* at 138, n. 24, and 140-141, n. 37, citing Mill, ON LIBERTY AND UTILITARIANISM (London, D. Camp, 1922) 98.

¹⁹ See Comment, *Breath of Fresh Air*, IRISH INDEPENDENT, Feb. 19, 2004, at 14.

²⁰ Tadhg O'Sullivan, *No ifs or butts, it's a total ban this time for good or ill*, IRISH INDEPENDENT, Feb. 19, 2004, at 15. O'Sullivan presented the opposition side.

²¹ *Infra* note 76.

²² O'Sullivan, *supra*, note 20.

²³ McDonald, *supra* note 5, at 164.

²⁴ *Supra* note 20. Smyth presented the positive side. Nonetheless, his column was so critical of the statute that it left the reader ambivalent with regard to his view.

The camps most adamantly opposed included not only the vintners and publicans but also cigarette vending machine operators and the hospitality industry. Gerry Lawlor of the Irish Cigarette Machine Operators Association termed the then-looming March 29, 2004 “our darkest day.”²⁵ Finbarr Murphy of the Irish Hospitality Industry Alliance (IHIA) threatened a legal challenge based on yet another theory. Murphy contended that the Irish government was in breach of EU law,²⁶ presumably because of allegedly unfair effect on competition. Approval of the statute by the European Commission proved him wrong.

The IHIA predicted that, at worst, there would result a thirty percent drop in alcohol sales and 64,200 jobs lost as a direct result of the ban.²⁷ Finance Minister Charlie McGreevy estimated a seventy-five million Euro (about \$97.5 million) decrease in revenue sales, which he allocated as sixty-six million Euro due to a projected six percent reduction in smoking and nine million Euro, from a predicted two percent loss in beer sales.²⁸

The insouciant Minister Martin remained undaunted. Determined to combat the ills of second-hand smoke, he viewed Ireland as “leading by example...[predicting that] many of our European colleagues plan to mirror our efforts.... The rest of the world is watching us.”²⁹

Content of the statute

The linchpin provision of the law is section 47.³⁰ Smoking in enclosed places is not restricted, but is rather absolutely prohibited. Violators, notably, both the smoker himself and the proprietor of the premises where the violation has occurred, are subject to criminal sanctions. An earlier version proposed as a maximum penalty a fine in the amount of 1900 Euro and/or three months imprisonment, but a compromise was reached so that the penalty was limited to a fine, but in the higher maximum amount of 3,000 Euro. Marc McDonald of the law faculty at Dublin Institute of Technology and an expert on hospitality law has explained the reason for the withdrawal of the prison option as advisable in order to avoid martyrdom for publicans. Professor

²⁵ Eilish O'Rehan, *Legal threat by publicans to March 29 smoking ban*, IRISH INDEPENDENT, Feb. 29, 2004, at 1, col. 1-3.

²⁶ *Id.*

²⁷ Eilish O'Regan, *New law will keep one in eight drinkers out of bars*, IRISH INDEPENDENT, Feb. 19, 2004, at 9, col. 7. *But see* Tadg O'Sullivan, *supra* note 20, commenting upon a Dublin City University study that indicated 3,000 lost jobs would result. This sizeable disparity is not clarified.

²⁸ *Id.*

²⁹ Minister for Health and Children website. <http://www.smokefreeatwork.ie/articles/default.asp>

³⁰ Public Health (Tobacco) Act 2002, as amendment, hereinafter “Smoking ban statute.”

McDonald quoted one Galway pub owner as having said, “My address at the moment is Galway. But it might be Mountjoy [prison] soon because I haven’t a bull’s notion of putting this through.”³¹ However, he explains that a defiant publican who does not comply with an injunction for his having permitted smoking might indeed be imprisoned for contempt. He adds that an indirect recourse might be the simple refusal by the government to renew a violator’s license.³²

Professor McDonald has pointed out that the statute prohibits smoking, but not the presence of tobacco smoke. Because there is no minimum distance between the establishment and an area outdoors where smoking is permitted³³, smoke might in fact lawfully be present in a banned area. Under a strict reading of the statute, there would be no offense if objectionable tobacco smoke drifted into a door or window of a covered premise.³⁴

Pursuant to his statutory authority, the Minister for Health and Children adopted enforcement regulations.³⁵ The regulations contain a comprehensive list of places subject to the ban, essentially encompassing any covered ad enclosed premise open to the public. The statute itself exempts prisons, Garda stations (police), nursing homes, hospices, psychiatric hospices, maternity homes, the Central Mental Hospital, and religious order homes, such as convents or monasteries. Interestingly, hospitals in general are not exempt, but they are directed to provide nicotine patches for smoking patients. Also included in the statutory provisions are three exclusions. First, one might still smoke in a hotel, guesthouse, or bed and breakfast bedroom. This would have no second-hand smoke on non-residents of the room. Second, the law does not apply to an uncovered, but enclosed, area. Third, a “partly enclosed” and covered area (such as a beer garden) is excluded. The proviso for the third exclusion is that the enclosed part can be no more than fifty percent of the perimeter of the area, including walls or similar structures, such as windows, doors, gates and/or other means of ingress and egress.³⁶

The first statutory draft did not expressly state the purpose of the law. A second version added a purpose clause, which stated that the reason for the legislation was “to reduc(e) the risk to and protect... the health of persons....”³⁷ The inference was that not only non-smokers but

³¹ McDonald, *supra* note 5, at 170.

³² *Id.*

³³ An example of such a minimum distance provisions is the twenty foot requirement in the California law. See *infra* note 82.

³⁴ McDonald, *supra*, note 5, at 168.

³⁵ Tobacco Smoking (Prohibition) Regulations 2003 (S.I.2003/481).

³⁶ Smoking ban statute section 47(7)(d).

³⁷ Section 15 Public Health (Tobacco) (Amendment) Bill 2003.

also smokers were the subjects of the protection, despite the contrary opinion of many in the legal profession.³⁸ Ann Marie Part of the Environmental Health Officers Association denied that the law is reflective of paternalism. She explained that the “new law is not about whether or not you smoke. This is not a nanny state taking over. It’s about *where* you smoke.”³⁹ Despite Ms. Part’s insistence that the aim of the law was not to convince people to quit smoking, *The Irish Times*’ pre-guidelines issuance report contained the Irish Cancer Society’s ten tips on how to “kick the habit.”⁴⁰ About a month before the effective date of the ban, Minister Martin stressed the need to target young people to warn them of the ills of smoking, advocating increasing the price of cigarettes as an incentive. He boasted that 17,000 persons had contacted the “quitline” since publication of the statute. He mentioned in particular the increase of heart and cardiovascular disease attributable to smoking.⁴¹

The proprietor’s duty is to make “reasonable efforts” to assure compliance⁴², and he might use this section as a defense. Court challenges on what constitutes a “reasonable” effort are expected. Surely the duty will include refusing to serve one who insists on violating the ban. The placing of the obligation on the publican gave rise to strenuous opposition. Publicans perceive themselves as being designated law enforcement officers.⁴³ Partly because of this position, some blatantly announced that they would act in concert and defy the ban. The first such statement came from the persuasive efforts of the County Kerry branch of the Vintners Federal of Ireland.⁴⁴

These misgivings about enforcement problems were not without basis. Only forty-one of the government’s five hundred health officers were assigned to inspect to assure compliance by the approximately 7,300 pubs in Ireland. However, they are not actually law enforcers, but rather health professionals. One such official, Roddy Doyle, explained their role as non-prosecutorial, adding that prosecutions would be reserved for the “worst case scenario... after weeks of trying to get a pro-

³⁸ See, e.g., King, *supra* note 17.

³⁹ *Bring on the umbrellas, we’re going out for a quickie*, IRISH INDEPENDENT, Feb. 21, 2004, at 5, col. 5-6.

⁴⁰ Carl O’Brien, *Guidelines for dealing with smoking ban offenders soon*, THE IRISH TIMES, Feb. 26, 2004, at 3, col. 6-7.

⁴¹ Niall O’Connor, *Publicans will uphold smoking ban, says Martin*, THE IRISH TIMES, Feb. 26, 2004, at 12, col. 1-2.

⁴² Smoking ban statute section 47(4).

⁴³ See O’Sullivan, *supra* note 20.

⁴⁴ Anne Lucy, *Publicans still totally opposed to smoke ban*, IRISH INDEPENDENT, Feb. 21, 2004, at 9, col. 204.

prietor to comply.”⁴⁵ Guidelines for publicans outlined a six-step sequential recommendation, beginning with a warning. Then service should be refused, if the smoker persisted. Next, he should instruct the smoker to leave the premises. Finally, the proprietor should call the *Garda* (police), rather than respond with force himself.⁴⁶

The law requires all covered premises to display prominently a sign (similar to those required by the Family and Medical Leave Act, the Fair Labor Standards Act, the Occupational Safety and Health Act, and state workers’ compensation laws in the U.S.A.). The sign must clearly state that smoking is prohibited, and must indicate the names of the person in charge of the premises and the person to whom one is to report violations.⁴⁷

Last thoughts before March 29, 2004:

Meanwhile, the consensus among publicans that the statute would have a vastly deleterious impact on their level of business persisted. Compounded by a predicted steady rise in the cost of alcohol caused by this loss of clientele, many bemoaned the ban as “all the more reason for them [patrons] to just go to the off-license and enjoy a cigarette in their own house.”⁴⁸ The day before the effective date, one news columnist wrote that “[T]housands of smokers gathered in pubs around the country for a ‘last gasp’ before closing time.”⁴⁹ The reader of daily news might have had the ominous feeling that he was reading an obituary of a piece of history.

On the other hand, some eagerly anticipated the coming of enforcement. Traveling pub musician Vincent Ryan worried about the constant toll the cloud of smoke had taken on his voice. “Today [March 29] is an historic date and one that I will certainly welcome,” he concluded.⁵⁰ Moreover, an organized group of health organizations and trade unions collectively representing 1.1 million persons in Ireland lauded the measure as a “visionary, pioneering initiative” and a “valuable preventive measure for young people”⁵¹ Lavish praise for Minister Martin

⁴⁵ *Don't call us nicotine police: we'll be 'smoke persuaders'*, IRISH INDEPENDENT, Feb. 21, 2004, at 5, col. 1-6.

⁴⁶ *Supra* note 40.

⁴⁷ Smoking ban statute section 47(2).

⁴⁸ Sinead McGovern, *Four days till the smoking ban—the end is nigh*, GALWAY ADVERTISER, Mar. 25, 2004, at 35, col. 1-5.

⁴⁹ Eilish O'Regan, *Smoke spies to mount secret checks on pubs*, IRISH INDEPENDENT, Mar. 29, 2004, at 1, col. 1-4.

⁵⁰ *Musician says ban is music to his ears*, IRISH INDEPENDENT, Mar. 29, 2005, at 15, col. 1-5.

⁵¹ *United force representing over 1.1 million endorses smoke-free at work*, IRISH INDEPENDENT, Mar. 29, 2004, at 15, col. 6-8.

came from the medical profession. Dr. Des Carney of Dublin's Mater (maternity) Hospital dismissed smokers' freedom-of-choice argument by asserting the need to persuade them to make the choice not to smoke, a choice he predicted would be starkly evident after the enforcement of the ban.⁵² [Carney's observation is somewhat puzzling, since maternity hospitals are one of the statutory exemptions]. One young university student confided to the author that she welcomed the ban because it had "made me decide to stop smoking. Hey, if I have to choose between smoking and the pub, the pub wins, hands down!"

The employment setting:

Since employers in Ireland have the statutory duty to assure the safety, health and prevention of risk to health for all workers⁵³ who might complain about tobacco smoke in their work environment, even an excluded or exempt owner or operator might nevertheless be subject to action by employees. Dublin solicitor Maura Connolly has written that a smoking worker who violates the ban might lawfully be disciplined. However, if a worker is terminated as a result of having violated the no-smoking statute, he is nonetheless entitled to the fair procedural rights assured by the Unfair Dismissals Acts, 1977 to 2001. Ms. Connolly suggests that the employer's duty to make "reasonable efforts" to comply with the smoking ban, conjoined with the statutory protection of workers obligation, might include the duty to provide for smoking employees an employer assistance program (EAP) to help them to end the habit.⁵⁴

SOME SELECTED COMPARISONS WITH AMERICAN LAW

American state courts have in general rejected challenges to smoking bans and/or restrictions in those jurisdictions where they have been adopted. Surely, the Minister for Health and Children was encouraged by these positive judicial approaches from across the Atlantic.

Although it is beyond the parameter of this article, the deluge of lawsuits against American cigarette manufacturers for illnesses resulting from the usage of tobacco products merits a mention. The doctrines of contributory negligence and assumption of risk seem to have gone into defense remission, according to the astronomical verdicts and settlements. Economist and syndicated columnist Walter Williams has chastised the courts regarding demise of the assumption of risk defense

⁵² *Prominent doctor supports the move to go smoke-free*, IRISH INDEPENDENT, Mar. 29, 2004, at 15, col. 1-6.

⁵³ Walter Williams, *Society has Trashed Assumption of Risk*, RICHMOND TIMES-DISPATCH, Oct. 8, 2004, at A-19.

⁵⁴ Broadway Books, New York, 2002, at 10.

in tobacco litigation. He has written that (n)ullification of responsibility for [one's] actions has had a devastating effect on [the American] economy."⁵⁵ Catherine Crier, in her book *THE CASE AGAINST LAWYERS*, related with disdain the March, 2002 \$150 million verdict to the estate of smoker Michelle Schwarz, whose widower was a doctor. Crier termed the \$242 billion settlement of state lawsuits against cigarette manufacturers the "largest redistribution of wealth to the smallest number of people in the history of the world."⁵⁶ Her assessment is that "courts have expanded the right to be an idiot."⁵⁷

Since the U.S. Surgeon General's announcement in 1964 that smoking "may be injurious to health" (later changed to "smoking is injurious to health") the awareness of the hazards of tobacco usage has increased. In Europe, packaging labels commenced with "Smoking may cause death," and many products in the British Isles and on the continent now read, "Smoking causes death." The demise of personal responsibility is apparently one factor in the influx of smoking bans, albeit one that is secondary to the protection of those involuntarily exposed to second-hand smoke. It is submitted that the sizeable judgments and settlements in the American setting and the comments of many associated with the ban in Ireland⁵⁸ confirm that shielding the smoker from his own folly is one purpose of such legislation.

The author's home state is perhaps notable because of its ambivalent position of being the situs of the headquarters of Philip Morris, Inc., an international manufacturer of cigarettes (and other products). This major company has been a substantial contributor to the author's home university, Virginia Commonwealth University, and for this reason, smoking restrictions in campus buildings have been handled painstakingly. This beneficiary status did not deter a recent study by the Life Skill Center in V.C.U.'s Department of Psychology regarding how best to influence middle schoolers to determine that they will not smoke. Funded by a \$135,000 grant from the Virginia Tobacco Settlement Foundation (established by the state legislature in 1999 with the state's allocable share (*i.e.*, \$13 million annually, or 10%) of the 1998 national tobacco settlement, the purpose of this project is prevention, not restriction of smoking.⁵⁹

⁵⁵ *Id.* at 8.

⁵⁶ See *supra* notes 37-41 and accompanying text.

⁵⁷ John Blackwell, *Peer pressure to not smoke is the subject of V.C.U. study*, RICHMOND TIMES-DISPATCH, Feb. 7, 2005, at D-12, col. 2-4.

⁵⁸ Virginia follows only North Carolina and Kentucky as the largest producers of tobacco in the country. Other major tobacco-growing states are South Carolina, Tennessee and Georgia. Vol. 19 *THE WORLD BOOK ENCYCLOPEDIA*, "Tobacco," at 24.

⁵⁹ VA. CODE ANN. SECTION 46.2-749.5 (1994).

Tobacco was first brought to Virginia in 1612 by English colonist John Rolfe, and it has contributed immeasurably to the economy ever since.⁶⁰ The General Assembly has acknowledged the significance of tobacco to the Commonwealth by approving vehicle license plates labeled with a statement celebrating the state's tobacco heritage.⁶¹ Because of tobacco's laudatory position in the Old Dominion, the February, 2005 passage by a state Senate panel of a bill similar to that in Ireland was somewhat anomalous. A close vote (8-7), the law would have banned smoking in most indoor places, including offices, restaurants, and common areas of apartments and condominiums. Included was the hotel room exception as in the Irish statute, with the proviso that such smoking rooms would constitute no more than twenty-five percent of the total number.⁶² Penalty for violation, as in the Irish law, would have been criminal, but on a much lower scale—for smokers, \$100 for a first violation and \$250 for subsequent ones, and \$200 and \$500 respectively for proprietors who "ignore" the law. The full Senate killed the measure by a 26-14 vote.⁶³ Virginia law already mandated the provision of smoke-free areas in all building frequented by the public.⁶⁴

Another Virginia law on smoking may indeed be unique. This recondite statute prohibits the requirement as a condition of employment that one who works for the commonwealth or for any political subdivision smoke or use tobacco products.⁶⁵

One of the earlier American decisions on the right to smoke-free work environment was *Shimp v. New Jersey Bell Telephone*.⁶⁶ The New Jersey Superior Court recognized three categories of persons who had standing to challenge smoke in the workplace: (i) those who have an allergy to tobacco smoke; (ii) those with a physical condition (*e.g.*, heart or cardiovascular disease) exacerbated by its presence; and (iii) those who simply find it unpleasant and uncomfortable.⁶⁷ The *Shimp* court expressly held that an employer has the common law duty to provide a healthy (and thus, smoke-free) workplace.⁶⁸

⁶⁰ John Reid Blackwell, *Ban on public smoking advances*, RICHMOND TIMES-DISPATCH, Feb. 4, 2005, at A-1, col. 2-6.

⁶¹ Tyler Whitney, *Senate rejects ban on smoking*, RICHMOND TIMES-DISPATCH, Feb. 9, 2005, at 1, col. 5.

⁶² VA. CODE ANN. section 15.2-2800-2810 (1990), the Virginia Clean Indoor Air Act.

⁶³ VA. CODE ANN. section 15.2-1504 (1993).

⁶⁴ 368 A.2d 408 (N.J. 1976).

⁶⁵ *Id.* at 414.

⁶⁶ *Id.* at 413.

⁶⁷ 205 Cal. Repr. 156 (1984).

⁶⁸ *Id.* at 157.

In *McCrocklin v. Employment Development Department*⁶⁹, an engineer who worked in a cubicle with an open top complained to management regarding cigarette smoke that wafted into his work area from other cubicles. He had attempted to correct the discomfort himself, by using two fans, which he described as having “put him in the crossfire of a hurricane.”⁷⁰ The company personnel’s promises to install floor to ceiling partitions and an air circulation system were unfulfilled. Alleging that his request to perform work at home was denied, he quit (with, as this rather imaginative court termed, “smoldering resentment”), alleging constructive discharge, and applied for unemployment compensation. Denied twice at the administrative level, he—with hope of making a “phoenix rise from the ashes”⁷¹—appealed to the court for relief. The court reversed, holding that he had quit work for good cause under the statute, having proved intolerable work conditions that caused tangible side effects.⁷²

A Colorado court in *Rotenberg v. Industrial Commission of Colorado*⁷³ reflected an earlier, and somewhat isolated, judicial attitude that was tacitly more tolerant of smokers’ “rights.” The owner of the small newspaper where the plaintiff worked had regarded his demand that all co-workers absolutely quit smoking in the workplace as presumptuous, promising only that he would discuss their colleague’s request with them, but that he was powerless to alleviate his discomfort if they refused. The Colorado Court of Appeals denied his claim for unemployment compensation because he had not met the burden of proving good cause. This court held that it was the obligation of the claimant/plaintiff to produce medical and/or scientific evidence that the workplace had been unhealthy, explaining that the unemployment commission was an adjudicatory, not an investigative, body.⁷⁴

In an appropriately styled case, *Gasper v. Louisiana Superdome*⁷⁵, non-smokers requested that a federal district court in Louisiana hold that they had a constitutional right to breathe clean, smoke-free air when attending Superdome functions. The court denied relief, holding that no such constitutional right existed. The petitioners had presented a novel, but arcane, First Amendment claim that the precondition that they must breathe foul, smoky air in order to attend programs in a public facility made them less likely to patronize these events and that this infringed upon their right to receive others’ “thoughts and ideas.”

⁶⁹ *Id.*

⁷⁰ *Id.* at 160.

⁷¹ 590 P.2d 521 (Colo. 1979).

⁷² *Id.* at 522.

⁷³

⁷⁴ 418 F. Supp. 716 (E.D.La. 1976).

⁷⁵ *Id.* At 718.

The court compared such logic to a similar allegation that high admission prices, or the selling of beer (if one is opposed to imbibing) are “chilling” effects that encroach upon one’s constitutional rights.⁷⁶

Regulations adopted by a county board of health in New York state prohibiting smoking in public places were upheld by a federal district court in *Dutchess/Putnam Restaurant & Tavern Association, Inc. v. Putnam County Board of Health*.⁷⁷ This local activity predated the 2004 statutory smoking ban in public places passed by the state legislature in New York.⁷⁸ This law was recently upheld as constitutional in *Empire State Restaurant & Tavern Association v. New York State*.⁷⁹ Similar to the ban in Ireland, this is a total prohibition of smoking indoors in most places of public accommodation. One provision allows for an exception to those covered businesses that can meet the burden of proving financial hardship as a result of the ban, an exception vintners and publicans in Ireland were unable in persuading the *Dail* to include in the Irish legislation.⁸⁰

The public sector smoking ban in Wisconsin was upheld as constitutional in *Rossi v. State Department of Revenue*.⁸¹ The statute did not apply to privately owned places, such as restaurants, bowling alleys, and private office buildings, and the challenge was on Fourteenth Amendment Equal Protection grounds. The Wisconsin court’s rationale in upholding the law was that many persons find it necessary to enter public buildings (*e.g.*, motor vehicle registration offices, tax offices, and professional licensing offices), whereas patronizing private businesses is a matter of choice.

In *Foundation for Independent Living, Inc. v. Cabell-Huntington Board of Health*⁸², the Supreme Court of West Virginia upheld a local health board regulation prohibiting smoking in all restaurants and workplaces. The court expressly recognized the dangers both of the use of tobacco products, in particular, by minors and of the exposure to second-hand tobacco smoke and viewed the ban as within the rule-making authority of the board delegated by state statute. Interestingly, a provision in the regulation exempted places where alcohol constituted more than eighty percent of total sales, a somewhat reverse stance from that taken by the Irish legislature.⁸³

⁷⁶ 178 F.Supp.2d 396 (S.D. N.Y. 2001).

⁷⁷ N.Y. C.L.S. Pub. Health sections 1399-n, -o, -r (2004).

⁷⁸ 289 F. Supp. 2d 252 N.D. N.Y. 2003).

⁷⁹ *Supra* note 76.

⁸⁰ 395 N.W.2d 801 (Wisc. 1986).

⁸¹ 591 S.E.2d 744 (W.Va. 2003).

⁸² This case is discussed in Spencer, *supra* note 13, Part II, at 4-5.

⁸³ Cal. Health and Safety Code, prec sections 25940, 25948 (2005) and Cal. Labor Code section 6404.5 (2005).

The California ban is a total prohibition of smoking in places of public accommodation, public transportation, and the workplace.⁸⁴ On a visit to California just before the Irish ban became effective, Minister Martin was told that there had been ninety-eight percent compliance with the statute throughout the state, even in the coldest parts in the north.⁸⁵

In Maryland, there was a recent third attempt by lawmakers to introduce a bill that would, if enacted, be a total ban of smoking in employment and public places.⁸⁶ This effort faces an uphill battle, since Gov. Robert L. Ehrlich, Jr. has promised to veto any such measure in the event it is approved by a majority in both houses.⁸⁷

HOW HAS IRELAND DEALT WITH THE SMOKING BAN?

The metaphorical D-Day has come and gone for the effective date of what some deemed a travesty. One pub frequenter, Frankie O'Connor, had called the law a "sacrilege," concluding that "A man comes into a pub for a bit of happiness.... If the goal [of the law] is to live longer and less happily, well, we're on the right road."⁸⁸ A regular at The Hut, a North Dublin blue-collar pub, said to the publican that "[t]his pub will be more empty than a seminary [a reference to the dearth in Ireland of young men entering the priesthood].... The government will have a revolution on its hands. I'll have Micheal's [the Minister for Health and Children] head on a pike!"⁸⁹

Despite all the grumbling, the bottom did not fall out from under the Emerald Isle on March 29, 2004. Although one pre-ban poll by the Tobacco Research Services (TRS-MRBI) had shown 8.3% would less frequently go to a pub or restaurant once smoking was prohibited, 38% had stated that they would be more likely to do so.⁹⁰ One innovative Dublin pub, Taylors Three Rock and Farmhouse, took what was perhaps

⁸⁴ Alison O'Connor, *Arnie shows minister how he terminated smoking ban*, IRISH INDEPENDENT, Mar. 18, 2004, at 9, col. 107. The significance of the reference to places with colder climates is the necessity for patrons to go outside to "light up." This article explains how Governor of California Arnold Schwarzenegger took Minister Martin into a tent he had installed in his gubernatorial office. He entered the tent in order to smoke cigars in order to comply with the statutory indoor smoking ban.

⁸⁵ The most recent is Senate Bill 332, introduced as the Clean Indoor Act of 2005.

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⁸⁷ Andrea Cecil, *Smoking ban attempt, and opposition, return to Maryland*, Feb. 2, 2005, THE DAILY RECORD (Baltimore).

⁸⁸ Shawn Pogatchnik, *Smoking has some Irish in stew*, RICHMOND TIMES-DISPATCH (Associated Press), Feb. 19, 2004, at A-4, col. 2-4. American newspapers have usually devoted ample coverage to major events in Ireland (such as the peace process in Northern Ireland), and this momentous occasion merited considerable attention.

⁸⁹ *Id.*

⁹⁰ *Supra* note 27.

a unique approach in providing a legal compromise for those who are determined to have a smoke while they drink. The upper part of a window was removed and replaced by a wooden panel containing a head-hole resembling that of a French guillotine, where the smoker might put his head. Another smaller hole was for one hand, which would hold the cigarette, and the other hand with his drink would go through the lower open part of the window.⁹¹

Even the imaginative plan to introduce the smoking of herbal—and, thus, tobacco-less and not illegal—cigarettes did not materialize. Cathal Kearney, principal health officer for County Mayo, made the recommendation to prohibit herbal cigarettes for two reasons. First, inspectors found them confusing and an interference with enforcement. Additionally, the smell was offensive to other patrons.⁹² Although not technically within the statutory ban, Kearney advised a concerted in-house rule by all establishments that would prohibit all smoking in covered establishments.⁹³

Ironically, the country that had formerly been stereotypically associated with smoke-filled bars and pubs has become a veritable role model for the rest of Europe. Within a week of the effective date, the Chief Medical Officer of Scotland publicly advocated a similar ban for that part of the United Kingdom. Smoking, he explained, is the cause for 13,000 deaths annually among Scots, and such a law would save at least 1,000 lives each year from among Scotland's 1.2 million smokers.⁹⁴

To be fair, it should be clarified that great Britain on the whole presented a position that was diametrically opposed. After two months, the British smokers' lobby pointed to Ireland as the antithesis of what the United Kingdom should be in this regard. Of 10,000 persons across Great Britain surveyed by Forest (conducted by Populace), seventy-four percent did not support a similar ban.⁹⁵ The consensus was that the most efficacious compromise would be to provide smoke-free areas for patrons of places accommodating the public and quality ventilation systems, so that persons could choose to smoke or not to smoke. Sixty-three percent objected to a governmental ban, preferring that each proprietor determine his own smoking policy. Only fifteen percent took

⁹¹ Eilish O'Regan and Nicole Anderson, *Pub trade delays its verdict as the smoke clears*, IRISH INDEPENDENT, Mar. 30, 2004, at 1, col. 7.

⁹² Tom Shiel, *Call for ban on herbal cigarettes to lift fog of confusion*, IRISH INDEPENDENT, Apr. 8, 2004, at 5 (News), col. 1-7.

⁹³ *Id.*

⁹⁴ *UK pro-smoking lobby group tries to flame fans of dissent*, IRISH INDEPENDENT, May 25, 2004, at 16, col. 5-6.

⁹⁵ *Id.*

the position that local councils would make a smoking ban in public places their “highest priority.”⁹⁶

Perhaps the most publicized civilly disobedient resident who openly violated the law was himself a public servant. TD (member of the *Dail*) John Deasy of County Waterford obstinately engaged in an “illegal three-cigarette blowout” in the *Dail* Members Bar. Enda Kenny, leader of *Fine Gale* (Deasy’s party), immediately removed Deasy from his prestigious post of justice spokesman. Having voted for the ban, Deasy confessed that he realized later that it was “wrong, very wrong.”⁹⁷ Kenny announced that he was appalled at the failure of his fellow party member to set an example for his constituents. Deasy was subjected to the maximum fine of 3,000 Euro.⁹⁸

To be sure, the anti-ban constituency persisted. Eilis O’Hanlon, editorialist for the *Irish Independent*, expressed dismay that even Croke Park—the country’s premier venue for football games and other team sports—is now smokeless. Micheal Martin, she wrote, has made a “world famous bid for a place in history as the man who saved Ireland from the dreaded weed.”⁹⁹ In true European style, she sardonically suggested that the next project for the Minister for Health and Children should be a statutory requirement that airlines flying from Ireland to other points in Great Britain and continental Europe include a warning on tickets that they are entering a zone of countries where “synchronized smoking is practically the national sport.”¹⁰⁰

Moreover, the ban was likely a causative factor in the increase of cigarette prices in Ireland. For example, a package of twenty cigarettes costs 6.¹⁰¹ Euro in Ireland, as compared with 2.55 Euro in Portugal. According to the Irish Cigarette Machine Operators Association, there has been a fifty-sixty percent loss of sales, and publican Tony Ward (Redz Bar in Drogheda) explained that his only alternative had been to remove much of the roof of his premises and to install expensive heaters. The main street location of his premises provided no outside room for

⁹⁶ Sam Smyth, *It’s a drag, but Deasy has no regrets*, IRISH INDEPENDENT, Apr. 2, 2004, at 1, col. 407.

⁹⁷ Alison O’Connor and Eilish O’Regan, *Bar smoker FG TD faces fine after sacking by Kenny*, IRISH INDEPENDENT, Apr. 2, 2004, at 7, col. 5-7.

⁹⁸ *Id.*

⁹⁹ Eilish O’Hanlon, *Our rebel spirit is going up in smoke*, SUNDAY INDEPENDENT, Apr. 25, 2004, at 9.

¹⁰⁰ *Id.*

¹⁰¹ Sarah McInerney and James Duffy, *Special Report: The Smoking Ban One Year On, Because sometimes nanny really does know best*, SUNDAY TRIBUNE (Dublin), Mar. 13, 2005, at 12-13.

smokers. Ward's business has since reduced drastically, and he commented that the ban did not "make any sense."¹⁰²

Seamus O'Donoghue, President of the Vintners Federation of Ireland, has also reflected negatively, albeit philosophically. Reporting that more than twenty-five pubs in County Clare have gone out of business since the ban, he has, perhaps not so altruistically as he intended to persuade readers to believe him to be, that the measure is actually deleterious to children. O'Donoghue reasoned that "people are staying at home to smoke, [and] it's likely that they're smoking with children in the room.... So the children will suffer."¹⁰³

Nonetheless, the positive reports outweighed the negative. By May 1, 2004, World No-Tobacco Day, the Ireland Office of Tobacco Control reported a ninety-seven percent compliance among establishments inspected during the first month of the ban.¹⁰¹ By August 11, 2004, the Irish Department for Health and Children proudly announced extraordinary public support for the measure, citing a commendable survey conducted by Landsdowne Market research. The "more-likely-to-patronize-a-pub-or-restaurant" post-ban group increased to fifty-three percent¹⁰⁴, a rise from the pre-ban poll's thirty-eight percent.¹⁰⁵ Bar worker Tommy Kerrigan at Toner's pub in Dublin had mixed feelings. He estimated a twenty-thirty percent loss of business, but conceded that the law has been a "breath of fresh air" with regard to his working environment.¹⁰⁶

Regardless of the doomsayers, the overall opinion on the statute has been positive. Office of Tobacco Control Director of Communications Valerie Robinson proudly announced recently that the smoking ban is "going global," crediting Ireland with played the primary role in this move. She mentioned Norway, Malta, Italy, New Zealand, and parts of Canada and Australia as having "followed in Ireland's footsteps."¹⁰⁷

Smoking inspector Ann Marie Part stated confidently that there are "not many people who would like to go back" [to the pre-ban situation], and that there was ninety to ninety-five percent compliance. Professor Luke Clancy, M.D. and Ireland's leading respiratory consultant, hailed the law as a positive one, reactive to human right. He added that "until the ban, it looked like society didn't care...."¹⁰⁸

Mention should be made of the actions during July, 2004, of the proprietors of one popular Galway pub, Fibber Magee's. Partners Ciaran

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ Smoke-Free at Work website: <http://www.smokefreetwork.ie/news/detail.asp?id=20>

¹⁰⁵ <http://www.smokefreetwork.ie/news/detail.asp?id=21>

¹⁰⁶ *Supra* note 99.

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

Levanzin and the ironically named Ronan Lawless made the audacious announcement that all customers who wanted to smoke might do so on the second floor portion of the pub. This was presumably because of their loss of business subsequent to the implementation of the ban. When the Department of Health petitioned for an injunction against the proprietors, Lawless defiantly stated from the steps outside Galway Courthouse that he would close the pub rather comply. The pub was indeed closed, but has since reopened, and Fibber Magee's is complying with the law.¹⁰⁹ [Author's note: The Fibber Magee owners had overlooked another quite likely probable cause of much of their loss of business. The pub is located directly on Eyre Square, formerly a lovely park in front of the city's bus and train station. During the first week of March, 2004, the city's eighteen-month renovation of Eyre Square commenced. Bus stops were moved further away, and the once attractive park resembled a battle zone, with clamorous bulldozers and removal equipment. This machinery was operated also on sidewalks across from the park, and ingress and egress particularly for establishments located on the south side of the park, where Magee's is situated, was substantially impeded.]

Any commentary on the statute would be incomplete without a reference to one significant ancillary effect of mandating that smokers leave the premises in order to light up. Even the least astute observer would notice the drastic post-ban increase in the number of cigarette butts on sidewalks outside pubs and restaurants.¹¹⁰ Early morning, street cleaners experienced a significant increase in the amount of work necessary to maintain public streets in an acceptably clean fashion. Dublin solicitor Maura Connolly has commented on this element of the enforcement,¹¹¹ cautioning that this is a violation of an anti-litter law.¹¹²

The augmented work of public workers cleaning the streets and the continued grumbling from some smokers notwithstanding, the overall opinion of the effect of the smoking ban is positive. One letter to the editor in Dublin's *Sunday Independent* phrased this consensus well, speaking on behalf of all who had been offended by the presence of tobacco smoke in restaurants and pubs in Ireland. Writing in praise of Minister Martin, this Scottish writer visiting Ireland called the minister "amazing and admirable" for having done "what politicians are supposed to do—respond to the desires of the majority of the population."¹¹³

¹⁰⁹ *Id.*

¹¹⁰ Maura Connolly, *Up in Smoke*, LAW SOCIETY GAZETTE, July, 2004, at 12, 14.

¹¹¹ *Id.*

¹¹² Litter Pollution Act 1977.

¹¹³ Letters to the Editor, SUNDAY INDEPENDENT, Apr. 25, 2004, at 8.

CONCLUSION

Despite the objections of publicans and restaurateurs that business would erode and the bewailing by their customers that the government was taking from them a nearly inalienable right, the smoking ban has been implemented without the massive civil disobedience that many predicted. Other than in New York and California, American statutory smoking restrictions have been more palliative than is the Irish law. Generally, the provision of well-ventilated non-smoking sections are required, but with the exceptions of these two states, there has been no outright prohibition of smoking.

One might surmise that those who have suffered most from the Irish smoking ban are the street cleaners. The downside of the necessary but frequent “popping out for a smoke” is the patent increase of patrons’ cigarette butts outside pub and restaurant entrances.

The relative ease with which this controversial measure was implemented and enforced bewildered cynics who had predicted boycotts of formerly favorite locales at best, and anarchy, at the worst. The proverbial jury is still out with regard to whether the ban has had any actual statistical impact on the percentage of smokers, but visibility and quality of air inside Irish pubs and restaurants have unarguably improved.

Perhaps the Irish pub is simply an indestructible social and cultural institution that likely is impervious to significant governmental intrusion.

THE UTILIZATION OF STATE FALSE CLAIMS ACTS TO COLLECT SALES AND USE TAXES

by ROBERT E. SHAPIRO*

INTRODUCTION

The Federal Government has long had a False Claims Act. The False Claims Act¹ allows private persons to sue in the name of the United States when they believe that any person or entity has knowingly submitted a false or fraudulent claim “for payment or approval” with the federal government. Claims prosecuted under the False Claims Act have produced substantial benefits not only for the government but also for private citizens who commenced suit utilizing the Federal False Claims Act. Recently, many States have created their own False Claims Acts. One law firm brought a number of suits in state courts pursuant to the state’s False Claims Acts alleging that large retailers through their internet operations failed to collect and pay over sales tax to such states. If successful, the rewards for the plaintiff would be enormous. After examining the federal law, this paper will look at the state False Claims Act actions brought by claimants seeking to collect such sales tax and how such proceedings are being handled at the state level.

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¹ 31 U.S.C. §§ 3729-3733 (2005). All references in this paper will be to the “False Claims Act.” However, it does not appear that there is such a designated title. In fact, 31 U.S.C. § 3733(l)(1) (2005) refers to the preceding sections as the “false claims law.”

THE FEDERAL FALSE CLAIMS ACT

The origins of the Federal False Claims Act can be traced to the Civil War when Congress was concerned with what it perceived as rampant profiteering and outright fraud on the part of government weapons and supply contractors during the Civil War.² Congress amended the False Claims Act in 1986 in response to a proliferation of fraud cases in the defense industry.³ These amendments were aimed at inflicting the sting of punishment on wrongdoers and to deter fraud against the government which Congress recognized as severe, pervasive, and an expanding national problem.⁴ “The goals of the 1986 Amendments Act were (1) to encourage those with information about fraud against the government to bring it into the public domain; (2) to discourage parasitic *qui tam* actions by persons simply taking advantage of information already in the public domain; and (3) to assist and prod the government into taking action on information that it was being defrauded.”⁵

Cause of Action

The plaintiff in a false claims act proceeding is known as a “relator”. This relator acts as a private attorney general and brings a *qui tam*⁶ action “in the name of the government” hoping to share in part of the recovery.

The False Claims Act, primarily, imposes civil liability on any person who knowingly presents a false or fraudulent claim for payment or approval to the government.⁷ This provision requires the presentation of a “false or fraudulent claim for payment or approval” without the additional element of a “false record or statement.”⁸ However, the False Claims Act also includes liability for knowingly utilizing “a false record

² *United States v. Hibbs*, 568 F.2d 347 (3rd Cir. 1977). See *Vermont Agency of Natural Resources v. United States ex rel. Stevens*, 529 U.S. 765, 781 (2000) *citing* *United States v. Bornstein*, 423 U.S. 303, 309 (1976) (explaining that Congress’s reason for passing the FCA in 1863 was “stopping massive frauds perpetrated by large contractors during the civil war); see also S. REP. NO. 99-345, at 8 (1986), *reprinted in* 1986 U.S.C.C.A.N. 5266, 5273.

³ See H.R. REP. NO. 99-660, p.2 (1986).

⁴ *In re Commonwealth Cos.*, 913 F.2d 518 (8th Cir. 1990). See H.R. REP. NO. 99-660, p.2 (1986).

⁵ *Minnesota Ass’n of Nurse Anesthetists v. Allina Health Sys. Corp.*, 276 F.3d 1032, 1040-42 (8th Cir. 2002).

⁶ *Qui tam* is short for the Latin phrase *qui tam pro domino rege quam pro se ipso in hac parte sequitur*, which means “who pursues this action on our Lord the King’s behalf as well as his own.” *Vermont Agency of Natural Res. v. United States ex rel. Stevens*, 529 U.S. 765, 769 n.1 (2000).

⁷ 31 U.S.C. § 3729(a)(1) (2005).

⁸ *Shaw v. AAA Eng’g & Drafting, Inc.*, 213 F.3d 519, 531 (10th Cir. 2000).

or statement to get a false or fraudulent claim paid or approved by the Government.”⁹

The False Claims Act also applies if the defendant knowingly utilizes a false record or statement to conceal, avoid, or decrease an otherwise outstanding obligation to pay the government.¹⁰ This provision is known as a “reverse false claims” provision. Under this provision, the “cause of action arises not from the submission of a claim to be paid, but from the concealment of an obligation owed to the government.” This provision requires the affirmative action of making a false record, but here the record is falsified to decrease an already existing obligation.¹¹ There is no requirement under this provision for any payment.¹²

With respect to these reverse false claims, courts have examined the meaning of an “obligation to pay or transmit money or property to the United States.” Recent cases have interpreted this to mean that the obligation “is for existing liabilities, precluding its use for contingent future fines.”¹³ “Application of the reverse false claim provision to future, undetermined fines, however, plainly exceeds the scope of the statute.”¹⁴ The “obligation” required by the False Claims Act “is limited to present, existing duties to pay the government and does not cover ‘potential’ or ‘future’ obligations.”¹⁵

Definition of “knowingly”

The requisite intent required to establish liability was clarified in the 1986 Amendments. Those Amendments created a definition for the word “knowingly.”

“[T]he terms “knowing” and “knowingly” mean that a person, with respect to information—

- (1) has actual knowledge of the information;
- (2) acts in deliberate ignorance of the truth or falsity of the information;
- or
- (3) acts in reckless disregard of the truth or falsity of the information, and no proof of specific intent to defraud is required.”¹⁶

⁹ 31 U.S.C. § 3729(a)(2) (2005).

¹⁰ *Id.* at § 3729(a)(7) (2005).

¹¹ *Id.*

¹² *Id.*

¹³ JOHN T. BOESE, CIVIL FALSE CLAIMS AND QUI TAM ACTIONS, §§ 2.01[G] , 2.01[G][1], p. 2-44, et seq. (2d. ed. 2003-1 Supp. & 2005-1 Supp.)

¹⁴ *Id.* at 2-45.

¹⁵ *Id.*

¹⁶ 31 U.S.C. § 3729(b) (2005).

Congress intentionally fell short of imposing liability for mere negligence.¹⁷

Defendants' liability and penalties

A violation of the False Claims Act will result in "a civil penalty of not less than \$5,000 and not more than \$10,000, plus 3 times the amount of damages which the Government sustains because of the act of that person."¹⁸ The penalties were increased for violations after September 29, 1999 to between \$5,500 and \$11,000 per violation.¹⁹

Procedure

When the relator initiates a complaint, that complaint is kept under seal for a period of 60 days during which time the government decides if it will intervene and litigate the case itself.²⁰ Once a False Claims Act action is commenced by a private party, it can be dismissed only with the consent of the court or the attorney general.²¹ If the government decides to intervene "it shall have the primary responsibility for prosecuting the action."²² However, the original plaintiff continues to be a party to the action.²³ If the government does not intervene, the relator can pursue the action alone.²⁴

Relator Reward

The relator is entitled to a portion of the proceeds from a successful *qui tam* suit. The relator's recovery depends on whether the government intervenes and how much the relator contributes to the prosecution of the claim.²⁵ If the government intervenes, the relator may recover between fifteen and twenty-five percent of the proceeds.²⁶ However, when the government does not intervene, the relator may receive between twenty-five and thirty percent of the settlement or fine.²⁷ Between 1987 and 2003, the government intervened in 750 of the 3403 cases and is currently investigating 891 cases.²⁸ *Qui tam* plaintiffs have

¹⁷ BOISE, *supra* note 13, § 1.04[B] p. 1.21 - 1-22 citing 132 CONG. REC. H9389 (Oct. 7, 1986)(remarks of Rep. Berman) (2d ed. 2004-2 Supp.).

¹⁸ 31 U.S.C. § 3729(a) (2005).

¹⁹ 64 FED. REG. 47099 (Aug. 30, 1999).

²⁰ 31 U.S.C. § 3730(b)(2) (2005). *See also* 31 U.S.C. 3730(c) (2005).

²¹ *Id.* at § 3730(b) (2005).

²² *Id.* at § 3730(c)(1) (2005).

²³ *Id.*

²⁴ *Id.* at § 3730(c)(3) (2005).

²⁵ *Id.* at § 3730(d) (2005).

²⁶ *Id.* at § 3730(d)(1) (2005).

²⁷ *Id.* at § 3730(d)(2) (2005).

²⁸ *See Fried Frank Qui Tam Page—FCA Statistics*, available at <http://www.friedfrank.com/quitam/fcastats.htm> (last visited Mar. 15, 2005) (providing statistics on *qui tam* law suits reported by the DOJ through September 30, 2003).

received an average of 16 percent of the government's damages where the government intervenes and almost 25 percent where the government does not intervene.²⁹ Since 1986, the federal government has recovered just over \$12 billion dollars from false claim actions.³⁰ A winning *qui tam* plaintiff is also entitled to reasonable expenses, attorneys' fees, and costs.³¹

Whistleblower Protection

The False Claims Act also provides protection to the whistleblower, who is often the *qui tam* plaintiff. The False Claims Act states that an employee who is "discharged, demoted, suspended, threatened, harassed, or in any other manner discriminated against" by his employer for participation in a *qui tam* suit "shall be entitled to all relief necessary to make the employee whole."³²

Parasitic Suits and Original Source

A relator can bring a *qui tam* action even though the relator has no direct or first hand knowledge of the fraud. However, *qui tam* proceedings are prohibited when they are based upon the public disclosure of allegations or transactions unless the relator is an "original source of the information." The statute names three ways in which previous public disclosure can occur: (1) in a criminal, civil, or administrative hearing, (2) in a congressional, administrative, or Government Accounting Office report, hearing, audit, or investigation, or (3) in the media.³³ The relator will be considered an original source if the relator is "an individual who has direct and independent knowledge of the information on which the allegations are based and has voluntarily provided the information to the government before filing an [False Claims Act] action" based on such information.³⁴ The relator does not have to be an original source unless there has been a previous public disclosure.

Effect on Tax Matters

The False Claims Act was originally enacted in 1863, long before our current income tax. Prior to 1986 no provision specifically excluded the False Claims Act from applying to federal tax matters. As early as 1933, the Courts did not permit a claim under the False Claims Act based upon tax matters. The Court looked to the Revenue Statutes which required that "[n]o suit for recovery of taxes, or any fine, penalty, or

²⁹ *Id.*

³⁰ Qui Tam Statistics (2003) at <http://www.taf.org/statistics.html>.

³¹ 31 U.S.C. § 3730(d)(1)-(2) (2005).

³² *Id.* at § 3730(h) (2005).

³³ *Id.* at § 3730(e)(4)(A) (2005).

³⁴ *Id.* at § 3730(e)(4)(B) (2005).

forfeiture, shall be commenced unless the Commissioner of Internal Revenue authorizes or sanctions the proceedings”.³⁵ “As we interpret it, it discloses a plain intent on the part of Congress to keep all cases for the collection of internal revenue taxes, fines, penalties, and forfeitures under the supervision of the Commissioner of Internal Revenue.”³⁶

Subsequently, the Ninth Circuit dealt with a False Claims Act complaint seeking to recover “income and excess profits taxes of which, it was alleged, the United States was defrauded through the filing of false and fraudulent tax returns.”³⁷ That Court “concluded that the statutes do not permit the maintenance of a *qui tam* action for the recovery of taxes due to the United States under the circumstances here presented.”³⁸ The Court determined that “in respect to tax frauds the legislative purpose was not to permit an action of the kind here involved, under the circumstances here present, to be maintained by an individual, at least without express consent of the Commissioner of Internal Revenue” citing Section 3740 of the Internal Revenue Code which had the same language as the Revenue Statute quoted in the earlier *Olson* case.

The current False Claims Act, after the 1986 amendments, expressly excludes “claims, records, or statements made under the Internal Revenue Code of 1986.”³⁹ The Senate Report for the 1986 amendments concluded that “[A]lthough it is now apparent that the False Claims Act does not apply to income taxes cases, and the Committee does not intend that it should be so used Thus, courts have held that there is no violation of the False Claims Act by the filing of a fraudulent Federal tax return (seeking to avoid payment of income tax) . . . [or] a fraudulent claim for a tax refund (seeking to obtain an inflated refund payment).”⁴⁰

Today courts have no difficulty in excluding income tax cases from the False Claims Act procedures. “Thus, income tax cases are not within the scope of [the False Claims Act].”⁴¹ “Nonpayment of tax liabilities is covered in great detail in Title 26 of the United States Code, but is not mentioned in the False Claims Act (31 U.S.C. 3729). This suggests that Congress created a separate remedial scheme to deal with tax matters, which did not embrace their treatment by lawsuits such as plaintiff’s current complaint. Whatever incentives may be available for reporting others’ tax infractions to the authorities does not appear to be found in

³⁵ *Olson v. Mellon*, 4 F.Supp. 947, 949 (W.D.Pa. 1933), *aff’d sub nom.*, *United States ex rel. Knight v. Mellon*, 71 F.2d 1021 (3rd Cir. 1934), *cert. denied*, 293 U.S. 615 (1934).

³⁶ *Id.* at 950.

³⁷ *United States ex rel. Roberts v. Western Pac. R. Co.*, 190 F.2d 243, 244 (9th Cir. 1951).

³⁸ *Id.* at 246.

³⁹ 31 U.S.C. § 3729(e) (2005).

⁴⁰ S. REP. NO. 99-345, *supra* note 1, at 18 (citing the *Olson* and *Western Pac. R.* cases).

⁴¹ *Hardin v. DuPont Scandinavia*, 731 F.Supp. 1202, 1204 (S.D.N.Y. 1990).

the Qui Tam statute.”⁴² The present False Claims Act provision effectively excludes all federal tax matters since the Internal Revenue Code applies to income taxes, estate and gift taxes, employment taxes and federal excise taxes.

STATE QUI TAM ACTIONS

Recently, there has been a “rapidly growing movement among state and local governments to enact similar laws.”⁴³ However, “many of the state and local false claims laws are being introduced and adopted quietly. In some cases, the laws have veritably flown through the legislative process with little apparent opposition.”⁴⁴ . “State legislators are understandably reluctant to go on record opposing a bill that has been promoted as an important ‘fraud fighting’ tool, but often respond appropriately with legislative analysis identifying provisions that are over-reaching or that offer unnecessary generous bounties to whistleblowers, provisions that inure primarily to the benefit of the plaintiffs’ bar, and provisions that represent significant intrusions on the state’s prosecutorial authority and discretion.”⁴⁵ The following discussion deals with cases using a state’s False Claims Act to collect a state’s sales tax. These cases indicate the nature of the problems that may arise through the application of a state’s false claims provisions. The states which currently have false claims acts include California,⁴⁶ Delaware,⁴⁷ District of Columbia,⁴⁸ Florida,⁴⁹ Hawaii,⁵⁰ Illinois,⁵¹ Massachusetts,⁵² Nevada,⁵³ Tennessee,⁵⁴ and Virginia.⁵⁵

⁴² United States *ex rel.* Mikes v. Straus, 846 F.Supp. 21 (S.D.N.Y. 1994); See also United States *ex rel.* Mikes v. Straus, 853 F.Supp. 115, 119 (S.D.N.Y. 1994.)

⁴³ John T. Boise, *State False Claims Laws Pose New Challenge for Contractors*, WASHINGTON LEGAL FOUNDATION LEGAL BACKGROUNDER, *available at*, <http://www.wlf.org/upload/12-20-02Boese.LB.pdf>.

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ California False Claims Act, CAL. GOV’T CODE §§ 12650-55 (2005).

⁴⁷ Delaware False Claims and Reporting Act, 6 DEL. C. §§ 1201-1209 (2005).

⁴⁸ D.C. CODE §§ 2-308.13 to 2-308.20 (2005).

⁴⁹ Florida False Claims Act, FLA. STAT. §§ 68.081-09 (2004).

⁵⁰ Hawaii Qui Tam Actions or Recovery of False Claims to the State, HRS §§ 661-21 to 661-29 (2004).

⁵¹ Illinois Whistleblower Reward and Protection Act, 740 ILCS 175/1 to 175/8 (2004).

⁵² False Claims Law, ALM GL Ch. 12 §§5A-5O (2005).

⁵³ Submission of False Claims to State or Local Government, NRS §§357.010-357.250 (2004).

⁵⁴ False Claims Act, TENN. CODE ANN. §§4-18-101 to 108 (2004).

⁵⁵ Virginia Fraud Against Taxpayers Act, VA. CODE ANN. §§8.01-216.1 to 8.01-216.19 (2004).

THE ILLINOIS LAWSUITS

In 2001, a Chicago law firm, Beeler, Schad & Diamond, P.C., commenced a series of qui tam actions in Illinois and Tennessee against many large retailers who were selling through catalogs or through the internet and who were alleged not to be collecting and/or transmitting sales tax. The complaints were filed in the name of the State, *ex rel.* the law firm which was the qui tam plaintiff and were filed in camera so that the defendants did not know they were being sued until the appropriate Attorney General decided to intervene.

Basis of the State Suits

The complaints commenced by the law firm were basically the same. In Illinois, the suits involved retailers which had remote sellers such as companies selling through the internet but also had in-state brick and mortar affiliates. The complaints alleged that the affiliates failed to collect and remit any sales or use tax on tangible personal property sold by the remote sellers to residents of those states. In addition, the complaints alleged that the in-state brick and mortar affiliates' presence and activities assisted the remote sellers in exploiting the markets in those state and therefore, the remote sellers have the requisite nexus to be required to collect the states' use and sales taxes. Furthermore, it was alleged that the remote sellers and their brick and mortar affiliates have made false claims to avoid collecting and remitting sales and use taxes.

The remote sellers are alleged to have made false claims by not charging sales or use taxes on sales to customers in these states and indicating to customers making purchases that no sales or use taxes are due on their purchases. The brick and mortar affiliates are alleged to have made false claims by submitting monthly sales and use tax returns that do not include the sales of the remote affiliates.⁵⁶

The Illinois suits were based upon the Illinois Whistleblower Reward and Protection Act,⁵⁷ which is the Illinois False Claims Act. The alleged

⁵⁶ The lawsuits have not been publicly reported. The forgoing discussion is based upon the author having access to a few of the pleadings supplied by the attorneys involved in the cases, news media accounts of the proceedings, and articles or presentations by the attorneys involved. The author has examined the complaints in the following cases: State of Illinois, *ex rel.* Beeler, Schad & Diamond, P.C. v. Viking Office Products, Inc., Docket 01 L 11263, Circuit Court of Cook County, Illinois, County Department, Law Division, hereinafter referred to as Illinois v. Viking for purposes of citations and footnotes; State of Illinois, *ex rel.* Beeler, Schad & Diamond, P.C. v. Wal-Mart.com, Inc., Docket 02 L 005278, Circuit Court of Cook County, Illinois, County Department, Law Division, hereinafter referred to as Illinois v. Wal-Mart for purposes of citations and footnotes; State of Illinois, *ex rel.* Beeler, Schad & Diamond, P.C. v. Target Corporation, Docket 01 L 06658, Circuit Court of Cook County, Illinois, County Department, Law Division, hereinafter referred to as Illinois v. Target for purposes of citations and footnotes;.

⁵⁷ 740 ILCS 175/1 to 740 ILCS 175/8 (2004).

violations of the of the Illinois Whistleblower Act were because the retailers failed to collect and remit any sales or use tax on tangible personal property sold to residents of Illinois. This obligation arose under two statutes. First, the Illinois Retailer's Occupation Tax Act required a retailer to pay the retailer's occupation tax on the sale of property located in Illinois at the time of sale and delivered to a purchaser in Illinois.⁵⁸ Second, the Illinois Use Tax Act required foreign corporations to collect use tax on sales made to Illinois residents if it was "a retailer maintaining a place of business in [Illinois]."⁵⁹

In January, 2003, the Attorney General on behalf of the State of Illinois joined in the Whistleblower lawsuits as a Plaintiff against various retailers including Wal-Mart, Target, Mothers Work, Jo-Ann Stores and Viking Office Products and its parent Office Depot.⁶⁰

With respect to Wal-Mart, the allegation was that its web site is subject to the tax obligations since it owned and operated 140 stores in Illinois, that the stores accepted merchandise returns from Internet purchasers, and the web site was promoted at the stores through signs, shopping bags and bill stuffers.⁶¹ Wal-Mart.com began collecting sales tax on all internet purchases in 45 states (since five states had no sales tax) beginning with its new fiscal year on February 1, 2003. The Wal-Mart spokeswoman stated the change was precipitated by "an increasing integration of Wal-Mart and Wal-Mart.com . . . that creates a presence in each state."⁶² Previously, it had collected sales tax in nine states where it had call centers.⁶³ The false claims required by the Whistleblower Act included making false statements in e-commerce billing documents, order confirmations, shipping summaries and financial reports.⁶⁴

The Illinois Whistleblower Act

The legal basis for all of the suits was premised on a "reverse false claim." The Illinois Whistle-blower Act imposes liability as a false claim for "any person who: . . . (7) knowingly makes, uses, or causes to be made or used, a false record or statement to conceal, avoid or decrease an obligation to pay or transmit money or property to the State."⁶⁵ This is the same as the reverse false claims provision in the Federal False Claims Act that imposed liability on "any person who—(7) knowingly

⁵⁸ 35 ILCS 120/1 (2004).

⁵⁹ 35 ILCS 105/1 (2004).

⁶⁰ Brae Canlen, *Out-of-state sales create a taxing issue for retailers*, HOME CHANNEL NEWS, Apr. 1, 2003, at 5.

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ 740 ILCS 175/3 (2004).

makes, uses, or causes to be made or used, a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the Government.”⁶⁶

*Suit Involving Viking Office Products*⁶⁷

The false claims alleged by the plaintiff, the Attorney General, were based on the allegation that “Viking had an affirmative duty to maintain Illinois sales tax records which it has failed to do.”⁶⁸ Furthermore, the Plaintiff maintained that Viking did maintain false or fraudulent records. The “false records included the customer order form, which omitted mention of Viking’s obligation to collect sales tax in Illinois, and Viking’s invoices, which contained the same omission.”⁶⁹

Illinois Whistleblower Act Applicability to Sales Tax Issues

The Illinois Whistleblower Act provides that it “does not apply to claims, records, or statements made under the Illinois Income Tax Act.”⁷⁰ However, the Illinois Income Tax Act is not in issue in these lawsuits. As indicated above, the complaints allege violations of the sales tax provisions⁷¹ and the use tax provisions.⁷² The Sales and Use Tax provisions are not part of the Illinois Income Tax but are contained in their own Acts. Accordingly, the State maintained that the sales and use tax cases were permitted under the Whistleblower Act. The Attorney General argued that “if the Illinois General Assembly wanted to exclude **all** tax matters from the application of the Whistleblower Act, it could easily have done so by expanding the exclusion under section 3(d) of the current Act to apply to claims, records, or statements made under Chapter 35 of the Illinois Compiled Statutes.”⁷³ “The express legislative intent in the Whistleblower Act is to limit the exclusion to the Illinois Income Tax Act.”⁷⁴

The Illinois Whistleblower exclusion for claims under the Illinois Income Tax Act⁷⁵ contains the same language as the Federal False Claims Act exclusion for claims made under the Internal Revenue Code

⁶⁶ 31 U.S.C. § 3729(a)(7) (2005).

⁶⁷ The author had access to many of the documents in the case involving Viking Office Products, Inc. and its parent Office Depot, Inc. See note 56, *Illinois v. Viking Complaint*.

⁶⁸ *Illinois v. Viking: Plaintiff’s Response to Defendant’s Motions to Dismiss Pursuant to 735 ILCS 5/2-615 and 735 ILCS 5/2-619*, at .9 (hereinafter referred to as “Plaintiff’s Response”).

⁶⁹ *Id.* at 9 (references to exhibits omitted).

⁷⁰ 740 ILCS 175/3, § 3(d) (2004).

⁷¹ Retailers’ Occupation Tax Act, 35 ILCS 120/1 (2004).

⁷² Use Tax Act, 35 ILCS 105/1 (2004).

⁷³ *Illinois v. Viking: Plaintiff’s Response* at 11 (Emphasis added).

⁷⁴ *Id.* 12.

⁷⁵ 740 ILCS 175/3(d) (2004).

of 1986.⁷⁶ The retailers argued that the Illinois legislature must have believed that referring to the Illinois Income Tax Act was equivalent to referencing the Internal Revenue Code and thereby excluding all taxes from the Whistleblower Act as was true under the Federal False Claims Act.⁷⁷

Viking noted that “the Relator wants this Court to do what no other court, state or federal, has ever done under an analogous statute, i.e., to allow a private litigant to shoehorn an ordinary tax case, for which there are specifically tailored statutes, into a whistleblower statute in order to take advantage of the unique rewards afforded to successful whistleblowers.”⁷⁸

It is interesting to note that the State of Illinois initiated an audit of Viking to establish Viking’s sales/use tax liability.⁷⁹ The audit was begun prior to the State’s intervention in the Whistleblower case.⁸⁰ Yet the State continued to insist that the Whistleblower suit be maintained citing Section 4(c)(5) of the Whistleblower Act.⁸¹

Public Disclosure in the Illinois Cases

The retailers, including Viking, also argued that there had been public disclosure of the information serving as the basis for these complaints and the qui tam plaintiff was not the original source of the information.

In April 2000, Wal-Mart, Target and other major retailers participated in a press Conference in Washington, D.C. discussing this sales tax issue. That event was covered by many media outlets including the Washington Post, the Red Herring Magazine, and Tech. Web News. In addition, the Bureau of National Affairs ran articles specifically naming these retailers and their approach to the problem.

“[S]ome of the nation’s largest brick-and-mortar retail chains are exploring new ways to facilitate their online sales operations without triggering sales and use tax nexus for Internet purchases.

⁷⁶ 31 U.S.C. § 3729(e) (2005).

⁷⁷ Compare the discussion, below, text accompanying notes 94-98, concerning the sales and use taxes being excluded from the Tennessee False Claims Act.

⁷⁸ *Illinois v. Viking: Defendant’s Reply to State’s and Relator’s Responses to Defendants’ Motion to Dismiss*, at 1 (hereinafter referred to as “Defendant’s Reply”).

⁷⁹ *Id.* at 2, 16-17.

⁸⁰ *Id.* at 18.

⁸¹ 740 ILCS 175/4(c)(5) (2004) provides that “the State may elect to pursue its claim through an alternative remedy available to the State, including any administrative proceeding to determine a civil money penalty. If any such alternative remedy is pursued in another proceeding, the person initiating the action shall have the same rights in such proceeding as such person would have had if the action had continued under this Section. Any finding of fact or conclusion of law made in such other proceeding that has become final shall be conclusive on all parties to an action under this Section.”

“[They] told BNA in more than a dozen interviews that competitive pressures are driving some retailers to structure their online businesses as separate entities that do not have tax collection responsibilities in most states where the retailer has a physical presence.

“Wal-Mart Stores, Inc., Target Corp., Kmart Corp., Barnes & Noble Inc., Borders Inc., and Tower Records Inc. are some of the most prominent retailers to take this step...

“In a new twist taking shape in the battle for Internet market share, all six of these retailers now are accepting returns in their physical stores on behalf of their dot-coms. Practitioners said this relationship generally is set up as an arms-length service contract to maintain the separation of the physical and online entities. They acknowledged, however, that the practice may catch the eye of state tax auditors who thus far have been slow to challenge the new dot-com retail structures.⁸²

The Illinois law firm filed its claims against Target and Wal-Mart on December 21, 2000. Those Target and Wal-Mart cases eventually were decided on the question of whether there was “public disclosure” and whether the law firm was an “original source.” “On June 24, 2004, the Circuit Court of Cook County granted Target and Wal-Mart’s Motion to Dismiss for Lack of Subject Matter Jurisdiction.”⁸³ The Court determined (1) the BNA article, as well as the articles cited by Target and Wal-Mart constitute news media; (2) these article constitute public disclosure; (3) the Complaints were based upon public disclosures; and (4) the relator was not the original source of the information.⁸⁴

Subsequently, on December 10, 2004, the Attorney General and the Illinois Department of Revenue Director announced settlements of the lawsuits against Wal-Mart Stores, Inc., Target Corp, and Office Depot Inc. and their affiliates for sales and use taxes owed for the period from January 2000 to February 2003. The Attorney General also indicated that there were still suits pending against more than 60 other retailers.⁸⁵

THE TENNESSEE LAWSUITS

The Chicago law firm also filed many lawsuits against major retailers on behalf of the state of Tennessee. These were *qui tam* law-

⁸² Alison Bennett, *Retail Chains Looking to Expand Services Online Without Creating Nexus*, BNA ELECTRONIC COMMERCE & LAW REPORT, Special Report, August 23, 2000, Vol. 5, No. 23, at 880-882.

⁸³ Paper presented by Maryann B. Gall at the NEW YORK UNIVERSITY INSTITUTE ON STATE AND LOCAL TAXATION CONFERENCE, New York, New York, December 2-3, 2004 at 48.

⁸⁴ *Id.*; see also 31 USC § 3730(e)(4)(B) (2005) and 740 ILCS 175/4(e)(4)(B) (2004).

⁸⁵ Barbara Rose, *Illinois officials settle tax issues with Wal-Mart, Target, Office Depot*, KNIGHT RIDDER TRIBUNE BUSINESS NEWS, Washington, Dec. 11, 2004, at 1.

suits under the provisions of the Tennessee False Claims Act.⁸⁶ The suits included more than 30 retailers including Wal-Mart, Target, Amazon.com, PetSmart, Media Play and Bass Pro Shops.⁸⁷ Again the basic thrust of these cases accused the retailers of failing to collect and remit taxes on Internet purchases made by Tennessee residents.⁸⁸ The complaints alleged that each retailer had a physical “nexus” or presence in the state requiring them to collect sales taxes from state residents.⁸⁹ The Tennessee Commissioner of Revenue said the suits could hamper her own department’s tax collection efforts. “Our position, as the state’s tax administrative agency, is we believe tax suits should be brought using the methods outlined in our tax laws.”⁹⁰

The Tennessee False Claims Act provides for liability at three times the amount of damages.⁹¹ The suit involving Target and the other retailers alleged “that the retailer defendants have made false claims against the State by indicating in records and billings that no tax is due on Internet sales and by failing to report that such taxes are due.”⁹² The Attorney General intervened and moved to dismiss this False Claims Action. The Chancery Court for the State of Tennessee, Twentieth Judicial District, Davidson County, Part III granted the motion “having concluded that tax claims are excluded from the False Claims Act and that *the failure of the defendants to report taxes in this case is not a deception but their interpretation of the law that they do not owe the tax.*”⁹³

It should be noted that at the time the actions were commenced, the Tennessee False Claims act stated that it “does not apply to claims, records, or statements made under the *Internal Revenue Code.*”⁹⁴ Evidently, the Tennessee legislature merely copied the wording of the Federal False Claims Act.⁹⁵ However, the Tennessee General Assembly amended this provision by deleting the reference to the Internal Revenue Code and substituting the words “any statute applicable to any

⁸⁶ TENN. CODE ANN. §§ 4-18-101 to 4-18-108 (2004).

⁸⁷ *Chicago Firm Suing Retailers on Behalf of State for Net Taxes*, ASSOCIATED PRESS STATE & LOCAL WIRE, April 29, 2003.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ TENN. CODE ANN. § 4-18-103 (200T).

⁹² *State of Tennessee, ex rel. Beeler, Schad & Diamond, P.C. v. Target Corporation*, Chancery Court for the State of Tennessee, Twentieth Judicial District, Davidson County, Part III, Docket No. 02-3764-III, *Memorandum and Order* at 1.

⁹³ *Id.* at 2 (emphasis added).

⁹⁴ TENN. CODE ANN. § 4-18-103(f), as originally enacted in the 2001 Public Acts 2001, ch. 367, §3 and amended in Chapter 418 of the 2003 Public Acts (emphasis added).

⁹⁵ See text accompanying notes 44 and 45, above.

tax administered by the Department of Revenue.”⁹⁶ Now all tax matters are not subject to the Tennessee False Claims Act. The state [in its briefs] maintained that this amendment *clarified* the original Tennessee FCA.⁹⁷

“...Thus it is clear that the legislators viewed themselves as clarifying, correcting, and implementing the original design of the False Claims Act, not altering its proper application.

“A recognized principle of statutory construction is that “[a]n amendment which in effect construes or clarifies a prior statute must be accepted as the legislative declaration of the meaning of the original act, where the amendment was adopted soon after the controversy arose concerning the proper interpretation of the statute.” 1A NORMAN J. SINGER, *SUTHERLAND ON STATUTES AND STATUTORY CONSTRUCTION* §22:31 (2002). As ably explained in the Memorandum of Defendants Amazon.com, Inc., Borders, Inc., and Borders Online, Inc., in Response to and in Support of State’s Motion to Dismiss, at 6-12, ‘interpreting a statute in light of subsequent amendments—even an amendment passed during the pendency of an action under the original statute – does not amount to impermissible retrospective application of the amendment.’ *Id.* at 9”⁹⁸

In determining that tax cases are excluded by statute from the False Claims Act, the Chancery Court relied upon § 67-1-1804 of the Tennessee Code, as well as the case of *L.L. Bean, Inc. v. Bracey*, 817 S.W.2d 292 (Tenn. 1991).

Tenn. Code § 67-1-1804 provides that in dealing with tax matters “[t]he procedure established by this part is the sole and exclusive jurisdiction for determining liability for all taxes collected or administered by the commissioner of revenue, [with two exceptions dealing with valuation questions involving estate and gift taxes.]”

In *L.L. Bean* that company sought a declaratory judgment that it was not subject to the sales tax provisions “based on the fact that the company maintains no offices, facilities, property, employees, sales representatives, or agents in the state of Tennessee, nor does it advertise in Tennessee.”⁹⁹ The Tennessee Supreme Court, relying on that Tennessee statute held that the Chancery Court did not have the ability to entertain injunctive relief and a declaratory judgment. “We hold that

⁹⁶ TENN. CODE ANN. § 4-18-103(f) (2004) as amended by Chapter 418 of the 2003 Public Acts.

⁹⁷ *State of Tennessee, ex rel. Beeler, Schad & Diamond, P.C. v. Target Corporation*, Chancery Court for the State of Tennessee, Twentieth Judicial District, Davidson County, Part III, Docket No. 02-3764-III, *Reply of the State of Tennessee to Qui Tam Plaintiff’s Response to the State’s Motion to Dismiss* at 15.

⁹⁸ *Id.*

⁹⁹ *L.L. Bean, Inc. v. Bracey*, 817 S.W.2d 292, 294 (Tenn. 1991).

the exclusive remedy afforded by T.C.A. §§ 67-1-1801 et seq. is adequate for purposes of determining any liability L.L. Bean may have for Tennessee sales taxes.¹⁰⁰ The Court also stated that “[w]e are not inclined to deviate from this holding based on the company’s contention that the statutory remedy is not actually available because no assessment has been made by the Department of Revenue.”¹⁰¹ Despite this admonition, the case involving the Target Corporation was decided by the Chancery Court although at the time of the Complaint no assessments had been brought against Target Corporation. Furthermore, as discussed above in connection with the “reverse false claims” under the Federal False Claims Act, there must be a current obligation and not a future contingent obligation.¹⁰² Also, it is doubtful that any proceeding could be sustained under the Tennessee False Claims Act if the State was conducting an audit prior to the relator commencing its action.

THE NEVADA LAWSUIT

Utilizing the Nevada version of the False Claims Act,¹⁰³ an employee of International Game Technology filed a complaint in February 2003 which was not served on the company until New Year’s Eve.¹⁰⁴ The complaint¹⁰⁵ alleged that International Game Technology filed false sales and use tax returns with the state of Nevada since 1997 in which it owed more than \$20 million in unpaid taxes.¹⁰⁶ The lawsuit was filed on behalf of Jim McAndrews, a former state Taxation Department auditor who was hired by International Games Technology in 2000 to help oversee its sales and use tax compliance.¹⁰⁷ The attorney for the relator said that “McAndrews is entitled under state law to up to half any money recovered as a result of the legal action.”¹⁰⁸

The Nevada Attorney General moved to dismiss the complaint saying (1) the Nevada Tax Commission rather than the court is the proper forum for resolving tax disputes; (2) the state Taxation Department already is conducting an audit of Reno-based IGT for the three-year period running through March 2003; (3) when the audit is completed it will go to the Tax Commission; (4) that by relying on the False Claims Act, there is no audit procedure or way to keep financial

¹⁰⁰ *Id.* at 297.

¹⁰¹ *Id.*

¹⁰² See text accompanying notes 13-15.

¹⁰³ NRS §§357.010-357.250 (2004).

¹⁰⁴ PR Newswire Association, Inc., January 7, 2004.

¹⁰⁵ Gall, *supra* note 83, at 50.

¹⁰⁶ Rod Smith, *Reno, Nev.-Based Slot Maker Denies Accusations of Filing False Tax Returns*, KNIGHT RIDDER TRIBUNE BUSINESS NEWS, Washington, Jan. 8, 2004, at 1.

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

details confidential; and (5) the act “creates a process that potentially circumvents the Taxpayer’s Bill of Rights.”¹⁰⁹

One of the attorney’s involved in this litigation has written that the Nevada Attorney General in his motion to dismiss stated

“although the legislative history of SB 418 [the Nevada False Claims Act] is silent with respect to its application to state tax matters, it is clear that Nevada False Claims Act was modeled after Federal False Claims Act which does not apply to, and specifically excludes, federal tax matters.’ (Citation omitted.) Under Nevada law, the collection of taxes is exclusively within the jurisdiction of the Department of Revenue.

“IGT also filed a motion to dismiss the suit, denying McAndrews claims and claiming that the Department of Taxation is the proper forum for resolving the dispute, rather than the court. *Defendants’ Motion to Dismiss and Joinder in the Attorney General’s Motion to Dismiss* at 4-5. Moreover, citing the Tennessee cases ... ‘False Claims Act complaints alleging taxation and revenue matters are incompatible with the procedures and protections available under state tax codes.’ *Id.* At 10. Further, ‘reference to the legislative history of the False Claims Act reveals that the Nevada Legislature never contemplated taxation and revenue matters being addressed under its provisions.’ *Id.* At 14. Additionally, according to IGT, in order to state a ‘reverse’ claim, plaintiff must show that the government was owed a specific, legal obligation at the time the alleged false statement of record was made and the plaintiff’s complaint alleges only a contingent liability. *Id.*”¹¹⁰

The Attorney General and the lawyers for Defendant contended “that the State of Nevada, particularly the Department of Taxation, has the exclusive authority to pursue tax claims and deficiencies. Additionally, allowing private party plaintiffs to pursue such claims would circumvent not only the Department of Taxation and the administrative protections found within the statutes, such as the Taxpayer Bill of Rights.”¹¹¹

On July 1, 2004, a Washoe County District Judge denied the State’s and IGT’s motions to dismiss McAndrew’s complaint. Because the court found that the statute was not ambiguous, it held that

“the Act must be given its plain meaning, which in this case would be to allow tax matters to be brought as false claims. . . . Finally, the history of the act reveals that it was patterned after the Federal

¹⁰⁹ Brendan Riley, *Nevada official seeks new venue for slot giant IGT’s tax case*, ASSOCIATED PRESS STATE & LOCAL WIRE, Carson City, Nevada, January 26, 2004.

¹¹⁰ Gall, *supra* note 83, at 51-53.

¹¹¹ State of Nevada *ex rel.* James McAndrews v International Game Technology, Inc., Second Judicial District Court of the State of Nevada in and for the County of Washoe, Case No. CV03-01329, *Order Denying Motions to Dismiss* at 4.

Legislation for false claims, however the federal act specifically excludes tax claims being brought under the Federal False Claims Act, while the Nevada Act does not. [Citations omitted.] However, the legislative history of the Nevada act has no reference to tax matters whatsoever. Had the Legislature truly intended to exclude such matters, they easily would have included such an exclusion. Accordingly, the Court finds that there is not an exclusion of tax related matters from claims brought under the Nevada False Claims Act and there is no conflict between the Nevada False Claims Act and the Nevada statutes regarding tax related matters that provide 'good cause' to dismiss this action.¹¹²

CONCLUSION

In the three states in which there have been tax issues brought under their False Claim Acts, there were three solutions as to whether tax matters are permitted in actions brought under the state's False Claims Act. In Tennessee, tax matters are outside of the scope of the False Claims Act; in Illinois there is uncertainty since the cases were dismissed based upon public disclosure of the tax positions taken by the defendants; and in Nevada, tax matters are within the scope of the False Claims Act. However, all of these cases have been resolved at the lowest judicial level.

False Claims Acts serve a useful purpose. However, as applied to taxation they do conflict with tax policy. First, tax matters generally begin at the administrative level through appropriate audits. These are always confidential protecting the rights of the taxpayer. This protection is not available if the lawsuit involves a third party relator. Second, there has been no determination that the taxpayer defendant has an obligation to pay taxes to the state. Therefore, the reverse false claim provision should not be applicable in these cases. Finally, especially as to sales tax cases, there was a real legal question as to the required nexus to assert taxability so as to provide the required scienter in these cases. The False Claims Act deals with the defendant's facts not with legal conclusions. The states were working out the appropriate policy to follow in this area. The question then arises as to who is making tax policy, the state or individual citizens. Illinois, Tennessee, and Nevada are all members of the Streamlined Sales Tax Implementing States and have ratified the *Streamlined Sales and Use Tax Agreement*.¹¹³ As part of that effort, some states have been granting amnesty for prior tax liabilities if a company agrees to collect future sales and use

¹¹² *Id.* at 3-5.

¹¹³ For a discussion of the Streamlined Sales Tax Project, see Robert E. Shapiro, *The Streamlined Sales Tax Project: The Roadmap to Taxation of Internet Commerce*, 34 BUS. L. REV. (2001).

taxes. If that is the policy or approach of a state, then why should such a policy be undermined or circumvented by private citizens commencing actions on the same issue under the state's False Claims Act provisions? Tax matters should be outside the realm of state False Claims Act and where it is not clear, the appropriate legislative action should be taken to amend the statute. The language of the Tennessee amendment seems appropriate and a state's False Claims Act would be consistent with the Federal False Claims Act.

FOURTEENTH AMENDMENT DUE PROCESS RIGHTS V. STATES' SOVEREIGN IMMUNITY

by LOUIS A. TROSCH*

I. INTRODUCTION

The voting patterns of our current U.S. Supreme Court suggest that there are sharp divisions between the justices in one key area: civil rights. In recent years, the conservative justices have voted as a five-member majority block to subordinate individual rights to states' rights. The majority's protection of states' rights has resulted in striking down remedial measures in three civil rights statutes that had given state employees a cause of action against the state employers.¹

There are two carefully drawn exceptions, thus far established, to state sovereign immunity from suits for money damages: equal protection and due process. Litigants have generally been unsuccessful in their efforts to seek money damages for state violations of federal equal protection laws. The due process line of cases examines whether violations of due process by states can be remedied by suits for money damages. The Supreme Court's ruling in *Tennessee v. Lane*,² involving

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¹ See *Kimel v. Florida Board of Regents*, 528 U.S. 62, 88 (2000); *United States v. Morrison*, 520 U.S. 598, 598-613 (2000); *University of Alabama v. Garrett*, 531 U.S. 356 (2001).

² 541 U.S. 509 (2004).

firmly rooted constitutional due process rights, indicates that litigants will be more successful remedying these violations despite the sovereign immunity barrier. It is the purpose of this article to analyze the extent to which due process rights carry greater constitutional protection than state sovereign immunity.

II. ELEVENTH AMENDMENT SOVEREIGN IMMUNITY DOCTRINE

A. Suits Pursuant to Federal Laws: A Brief History of the Doctrine

The Eleventh Amendment states, “The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.”³ The Amendment prohibits suit in federal courts against state governments in law, equity, or admiralty, by a state’s own citizens, citizens of another state, or citizens of foreign countries.⁴ Moreover, the Supreme Court has recently interpreted the Eleventh Amendment to prohibit lawsuits in state courts against state governments without their consent.⁵

Despite such an expansive reading of the Eleventh Amendment, the Supreme Court has acknowledged that states’ immunity from suit in federal court is not absolute. Unwilling to trust that state courts will independently uphold and enforce the Constitution and federal laws, the Supreme Court has devised several means to circumvent sovereign immunity and ensure federal court review of illegal state actions.⁶

One of the ways the Court has avoided the broad prohibition of the Eleventh Amendment has been to allow suits against states pursuant to federal laws. The Fourteenth Amendment provides in relevant part: “No State shall...deprive any person of life, liberty, or property without due process of law; nor deny any person...equal protection under the law.”⁷ Section 5 of the Fourteenth Amendment gives Congress the power “to enforce, by appropriate legislation, the provisions of this Article.”⁸ As such, Congress may abrogate states’ sovereign immunity when acting pursuant to § 5 of the Fourteenth Amendment.

*Fitzpatrick v. Bitzer*⁹ is the seminal case holding that Congress may authorize suits against state governments when it is acting pursuant to its powers under the Fourteenth Amendment.¹⁰ The Court reasoned

³ U.S. CONST. AMEND XI.

⁴ ERWIN CHEMERINSKY, FEDERAL JURISDICTION § 7.1, at 394 (4th ed. 2003).

⁵ *Alden v. Maine*, 527 U.S. 706 (1999).

⁶ CHEMERINSKY, *supra* note 5, § 7.1, at 394.

⁷ U.S. CONST. AMEND. XIV, § 5.

⁸ *Id.*

⁹ *Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976)

¹⁰ *Id.* at 456.

that the Fourteenth Amendment was specifically intended to limit state sovereignty, and, that through ratification of the Amendment, the States empowered Congress with the ability to enforce its substantive guarantees.¹¹ The Court concluded that such enforcement could include providing for private suits against the states without violating the doctrine of sovereign immunity.¹²

In 1996, the Supreme Court reaffirmed *Fitzpatrick* in *Seminole Tribe of Florida v. Florida*,¹³ holding that Congress may abrogate the Eleventh Amendment only when acting pursuant to its § 5 powers under the Fourteenth Amendment and not under any other constitutional authority.¹⁴ This overruled a series of cases decided in the late 1980s, including *Pennsylvania v. Union Gas Co.*¹⁵, in which the Supreme Court held that Congress may allow suits when acting pursuant to other constitutional powers, including its Commerce Clause power, so long as the federal law clearly and expressly permits federal court jurisdiction over state governments in its text.¹⁶ The *Seminole Tribe* decision thus increased states' ability to use sovereign immunity as a defense to suit. Moreover, the decision articulated a two-part test for lower courts to apply in determining whether Congress has validly abrogated states' sovereign immunity: (1) whether Congress has "unequivocally expressed its intent to abrogate immunity;" and (2) whether Congress has acted pursuant to a "valid exercise of power."¹⁷

B. Appropriate Legislation under § 5

The critical question after the *Seminole Tribe* decision became whether and what type of legislation constitutes a valid exercise of Congress's § 5 powers. Beginning with *City of Boerne v. Flores*,¹⁸ the Supreme Court decided a series of cases that sharply limited Congress' power to regulate the states under § 5.¹⁹

¹¹ *Fitzpatrick*, 427 U.S. at 454-456.

¹² *Id.* at 456.

¹³ *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996).

¹⁴ *Id.* at 59.

¹⁵ *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), overruled by *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996).

¹⁶ CHEMERINSKY, *supra* note 5, § 7.7, at 449.

¹⁷ *Seminole Tribe*, 517 U.S. at 55 (citing *Green v. Mansour*, 474 U.S. 64, 68, 106 (1985)).

¹⁸ *City of Boerne v. Flores*, 521 U.S. 507 (1997).

¹⁹ National Council on Disability, *Tennessee v. Lane: The Legal Issues and the Implications for People with Disabilities* (2003), available at <http://www.ncd.gov/newsroom/publications/legalissues.html> (last visited Feb. 10, 2004) (copy on file with author) [hereinafter Legal Issues].

1. Requirement of Congruence and Proportionality:

In *City of Boerne*, the Court struck down the Religious Freedom Restoration Act (RFRA), which required state laws burdening religious freedom to meet a “compelling interest” test.²⁰ The Court had already defined the applicable test for these laws in *Employment Division v. Smith*,²¹ holding that neutral laws of general applicability burdening religious practices need not be supported by a compelling government interest.²² The RFRA, adopted in 1993, was designed to supersede the standard as set forth in *Smith* and restore the compelling interest test to all laws burdening the free exercise of religion.²³ The Supreme Court declared the RFRA unconstitutional as exceeding the scope of Congress’ power under § 5 and held that Congress is limited to enacting laws that prevent or remedy violations of rights already recognized by the Court. Congress may not create new constitutional rights or expand the scope of rights as already interpreted by the Court.²⁴

Moreover, in *City of Boerne*, the Court said that Congressional legislation under § 5 must be narrowly tailored to remedying constitutional violations, stating that there must be a “congruence and a proportionality between the injury to be prevented and the means adopted to that end.”²⁵ Congress may prohibit conduct which is not in itself unconstitutional if such prohibition prevents the constitutional violations primarily targeted by the legislation; however, such prohibitions must be a congruent and proportional response to documented constitutional violations.²⁶

2. Requirement of an Adequate Legislative Record:

*Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*²⁷ followed directly from *Seminole Tribe* and *City of Boerne*. In *Florida Prepaid*, the Court reaffirmed that Congress can authorize suits against states pursuant only to § 5 of the Fourteenth Amendment.²⁸ Applying the restrictive test articulated in *City of Boerne*, the Court held federal legislation authorizing suits against state governments for patent infringement is impermissible as not

²⁰ *City of Boerne* 521 U.S. at 532; see also 42 U.S.C. §§ 2000bb-1-4 (1994).

²¹ *Employment Division v. Smith*, 494 U.S. 872 (1990).

²² *Id.* at 885.

²³ 42 U.S.C. § 2000bb-1.

²⁴ *City of Boerne*, 521 U.S. at 519-520.

²⁵ *Id.* at 520.

²⁶ *Id.* at 518, 532.

²⁷ *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999).

²⁸ *Id.* at 636-37.

“congruent” or “proportionate” to remedy constitutional violations.²⁹ The Court stated: “In enacting the Patent Remedy Act, Congress identified no pattern of patent infringement by the States, let alone a pattern of constitutional violations...the legislative record thus suggests that the Patent Remedy Act does not respond to a history of widespread and persisting deprivation of constitutional rights of the sort Congress has faced in enacting proper prophylactic legislation.”³⁰ Hence *Florida Prepaid* represented a subtle shift in the Court’s § 5 analysis, emphasizing the necessity of an adequate historical record of state constitutional violations justifying a prescribed remedy.³¹

III. FEDERAL EQUAL PROTECTION LAW V. SOVEREIGN IMMUNITY

A. Age Discrimination in Employment

In 2000, the Court applied the congruence and proportionality test to civil rights legislation for the first time in *Kimel v. Florida Board of Regents*,³² holding that the Age Discrimination in Employment Act (ADEA) is not applicable to state employers.³³ The ADEA makes it unlawful for employers “to fail or refuse to hire or discharge any individual or otherwise discriminate against any individual...because of such individual’s age.”³⁴ Classifications based on age are generally only subject to rational basis review. In other words, the state need only show that the classification is rationally related to some legitimate state purpose in order for the classification to be deemed constitutional.³⁵ Therefore, the Court concluded that the broad prohibition of age discrimination in the ADEA exceeded the scope of Congress’ power under § 5 as it imposed a higher level of judicial scrutiny on age classifications than that imposed by the Court’s equal protection analysis.³⁶ This, the Court held, was an impermissible expansion of the substance of constitutional protection for the elderly.³⁷

The Court further emphasized Congress’ failure to uncover any significant pattern of age discrimination by state governments which would justify the legislation.³⁸ The Court, examining the legislative record that led to the passage of the ADEA, stated that because of “the

²⁹ *Id.* at 646-47; *see also* *City of Boerne*, 521 U.S. at 520.

³⁰ *Id.* at 640

³¹ *Id.* at 645; *see also* Legal Issues, *supra* note 19.

³² *Kimel v. Florida Board of Regents*, 528 U.S. 62 (2000).

³³ *Id.* at 91.

³⁴ 29 U.S.C. § 623 (a)(1) (1994).

³⁵ *Kimel*, 528 U.S. at 83.

³⁶ *Id.* at 86-88.

³⁷ *Id.*

³⁸ *Id.* at 88-91.

lack of evidence of widespread and unconstitutional age discrimination by the states, we hold that the ADEA is not a valid exercise of power under § 5 of the Fourteenth Amendment.³⁹ *Kimel* confirmed and elaborated on the standard as set forth in *Florida Prepaid* by insisting on a record of constitutional violations by the states in order to justify remedial legislation.⁴⁰

B. Disability Discrimination in Employment

The second instance in which the Supreme Court applied the congruence and proportionality test to limit state employee's remedies for state civil rights violations was *Board of Trustees of the University of Alabama v. Garrett*.⁴¹ In *Garrett*, two state employees, alleging that the State of Alabama had subjected them to disability discrimination and denied them reasonable accommodation, sued for damages under Title I of the Americans with Disabilities Act (ADA).⁴² In a five to four decision, the Court held that state governments may not be sued for damages under Title I, which prohibits employment discrimination based on disability and requires reasonable accommodations for employees with disabilities.⁴³ The Court held that Congress failed to properly abrogate the states' Eleventh Amendment immunity when it provided state employees with a cause of action against state employers for violations of the ADA.⁴⁴

Applying principles first articulated in *Boerne* and *Kimel*, the Court reasoned that overriding the state's sovereign immunity required a three-pronged abrogation analysis.⁴⁵ First, the Constitutional right at issue must be identified.⁴⁶ Second, the history of the States' conduct must be examined to determine if there have been constitutional violations.⁴⁷ Finally, if there is a pattern of such violations, the remedies established by Congress must be examined to determine if they are congruent and proportional.⁴⁸

The Court identified the constitutional right at issue in *Garrett* as freedom from employment discrimination based on disability.⁴⁹

³⁹ *Id.* at 91.

⁴⁰ See Legal Issues, *supra* note 19.

⁴¹ *Board of Trustees of the University of Alabama v. Garrett*, 531 U.S. 356 (2001).

⁴² *Id.* at 360.

⁴³ *Id.* at 374; see also 42 U.S.C. §§ 12112 (a), (b)(5)(A).

⁴⁴ *Id.*

⁴⁵ *City of Boerne*, 521 U.S. at 520; *Kimel*, 528 U.S. at 91; see also Legal Issues, *supra* note 19.

⁴⁶ *Garrett*, 531 U.S. at 365-72.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.* at 366.

*Cleburne v. Cleburne Living Center, Inc.*⁵⁰ set forth the standard of review applicable to classifications based on disability, stating that such classifications, like those based on age, would receive only the minimum rational basis review.⁵¹ State action, being subjected to rational basis equal protection scrutiny does not violate the Fourteenth Amendment when such scrutiny rationally furthers the purpose identified by the State.⁵² In *Garrett*, the Court explained the result of *Cleburne* as not requiring States to make special accommodations for the disabled so long as their conduct towards such individuals is rational; if special accommodations for the disabled are to be required, “they have to come through positive law and not through the equal protection clause.”⁵³

The Court next looked to the legislative record to determine whether Congress had identified a “history and pattern” of unconstitutional disability discrimination by State employers.⁵⁴ It found that the great majority of the incidents supporting Congress’ general finding of disability discrimination did not deal with the activities of the States, and the few which did fell “far short of even suggesting the pattern of unconstitutional discrimination on which § 5 legislation must be based.”⁵⁵ Hence the Court held that the legislative record of the ADA failed to identify a pattern of irrational State discrimination in employment against the disabled sufficient to justify prophylactic legislation.⁵⁶

But even if Congress had found a pattern of unconstitutional disability discrimination by the States, the Court reasoned, “the rights and remedies created by the ADA against the States” were not a congruent and proportional response.⁵⁷ Title I requires State employers to make special accommodations for the disabled unless they can demonstrate that the necessary accommodation would constitute an “undue hardship on the operation of business.”⁵⁸ The Court found this scheme to be over-inclusive because its “accommodation duty far exceeds what is constitutionally required” of State employers when justifying rational classifications based on disability.⁵⁹ The majority thus reiterated its holding in *City of Boerne* that Congress may legislate

⁵⁰ *Cleburne v. Cleburne Living Center, Inc.*, 473 U.S. 432 (1985).

⁵¹ *Id.* at 446.

⁵² *Garrett*, 531 U.S. at 367 (quoting *Massachusetts Board of Retirement v. Murgia*, 427 U.S. 307, 314 (1976)).

⁵³ *Id.* at 367-68.

⁵⁴ *Id.* at 368.

⁵⁵ *Id.* at 370.

⁵⁶ *Id.*

⁵⁷ *Id.* at 372.

⁵⁸ 42 U.S.C. § 12112 (b)(3)(A).

⁵⁹ *Garrett*, 531 U.S. at 372.

pursuant to § 5 so long as it does not change the substantive constitutional guarantees of the Fourteenth Amendment as interpreted by the Court.

Garrett left open, however, the question whether Title II constitutes a valid exercise of Congress' § 5 enforcement power.

C. *Gender Discrimination in Employment*

In June 2003, the Court issued its decision in *Nevada Department of Human Resources v. Hibbs*.⁶⁰ *Hibbs* considered whether the Eleventh Amendment prohibits individuals from suing states for damages under the Family and Medical Leave Act of 1993 (FMLA).⁶¹ The FMLA entitles an eligible employee up to 12 weeks of unpaid leave annually for the onset of a "serious health condition" in the employee's spouse, child, or parent.⁶² The plaintiff in this case, an employee of the Nevada Department of Human Resources, sought leave under the Act to care for his ailing wife.⁶³ Subsequently, he was fired by his employer for failure to return to work prior to exhausting his 12 weeks of leave.⁶⁴

In a six to three decision, the Court upheld the damages remedy noting that the FMLA's purpose was to protect the right to be free from gender-based discrimination, a classification subject to heightened scrutiny.⁶⁵ The majority distinguished *Kimel* and *Garrett* on the ground that age and disability discrimination are subject only to rational basis scrutiny.⁶⁶ The Court went on to say, "because the standard for demonstrating the constitutionality of a gender-based classification is more difficult to meet than [the] rational basis test, it was easier for Congress to show a pattern of state constitutional violations."⁶⁷

Moreover, the Court reasoned that, unlike Title I of the ADA, the FMLA was sufficiently narrowly-tailored to abrogate states' immunity under the Eleventh Amendment.⁶⁸ The Court found the impact of the discrimination targeted by the FMLA to be significant, based on mutually reinforcing stereotypes that only women are responsible for family caregiving and that men lack domestic responsibilities, to be significant.⁶⁹ By creating an across-the-board, routine employment benefit for all eligible employees, Congress sought to ensure that family

⁶⁰ *Nevada v. Hibbs*, 538 U.S. 721 (2003).

⁶¹ 29 U.S.C. § 2612 (2003); *see also* Legal Issues, *supra* note 19.

⁶² 29 U.S.C. § 2612 (a)(1)(c).

⁶³ *Hibbs*, 538 U.S. at 725.

⁶⁴ *Id.*

⁶⁵ *Id.* at 728; *see also* *Craig v. Boren*, 429 U.S. 190, 197-99 (1976).

⁶⁶ *Hibbs*, 538 U.S. at 727.

⁶⁷ *Id.* at 731.

⁶⁸ *Id.* at 740.

⁶⁹ *Id.* at 738.

care would no longer be stigmatized as an “inordinate drain on the workplace caused by female employees,” and that “employers could not evade leave obligations simply by hiring men.”⁷⁰ Hence the Court found the FMLA, narrowly targeted at the fault line between work and family, and affecting only one aspect of the employment relationship, a congruent and proportional response to sex-based discrimination by the states.⁷¹

IV. FUNDAMENTAL DUE PROCESS RIGHTS

Among the rights protected by the Due Process Clause of the Fourteenth Amendment are a variety of basic constitutional guarantees, infringements of which are subject to searching review.⁷² For criminal defendants, the Due Process Clause has been interpreted to provide that “an accused has a right to be present at all stages of the trial where his absence might frustrate the fairness of the proceedings.”⁷³ The Sixth Amendment guarantees an accused all the rights necessary for a full defense, including being informed of the nature and cause of an accusation, confronted with witnesses against him, having compulsory process for obtaining witnesses in his favor, and having assistance of counsel for his defense.⁷⁴ These rights are part of the “due process of law” that is guaranteed by the Fourteenth Amendment.⁷⁵ The rights to notice, confrontation, and compulsory process, taken together, guarantee that a charge may be answered in a manner considered fundamental to the fair administration of American justice.⁷⁶ Moreover, the Constitution guarantees to criminal defendants that court proceedings be open to the public, and the right to trial by a jury of their peers.⁷⁷

In civil litigation, parties have an analogous due process right to be present in the courtroom and to meaningfully participate unless their exclusion furthers important governmental interests.⁷⁸ The Due Process clause requires the States to afford civil litigants a “meaningful opportunity to be heard.”⁷⁹ At a minimum, the clause requires that deprivation of life, liberty or property be preceded by notice and

⁷⁰ *Id.* at 737.

⁷¹ *Id.* at 738-740.

⁷² *See Tennessee v. Lane*, 124 S. Ct. 1978, 1988 (2004).

⁷³ *Faretta v. California*, 422 U.S. 806, 819 (1975).

⁷⁴ *Id.* at 818.

⁷⁵ *Id.*

⁷⁶ *Id.*

⁷⁷ U.S. CONST. AMEND. VI; U.S. CONST. AMEND. I.; *see also Lane*, 124 S. Ct. at 1988.

⁷⁸ *See Popovich v. Cuyahoga County Court of Common Pleas*, 276 F. 3d 808, 813-14 (6th Cir. 2002).

⁷⁹ *Boddie v. Connecticut*, 401 U.S. 371, 379 (1971).

opportunity for hearing appropriate to the nature of the case.⁸⁰ Thus the State's obligations under the Fourteenth Amendment are not generalized ones; rather, "the State owes to each individual that process which, in light of the values of a free society, can be characterized as due."⁸¹

V. DUE PROCESS V. SOVEREIGN IMMUNITY: *TENNESSEE V. LANE*

On May 17th, 2004 the Supreme Court rendered its decision *Tennessee v. Lane*,⁸² holding that Title II of the Americans with Disabilities Act of 1990 (ADA)—which provides that no qualified person shall be excluded from or denied benefits of a public program by reason of a disability, and which authorizes money damages against the states—is a valid exercise of congressional power under § 5 of the Fourteenth Amendment as applied to enforce the constitutional right of access to the courts.⁸³ This decision signals a shift away from the Court's trend of protecting states' rights under the Eleventh Amendment, particularly where firmly rooted due process rights are implicated.

A. *History and Purpose of Title II of the ADA*

The Americans with Disabilities Act of 1990 grew out of the Civil Rights Movement of the 1960s.⁸⁴ That movement gave rise to other civil rights movements, most notably the Women's Rights Movement and the Disability Rights Movement.⁸⁵ While minorities and women were protected by civil rights legislation passed by Congress during the 1960s, the rights of individuals with disabilities were not protected by federal legislation until much later.⁸⁶ Although the Civil Rights Act of 1964 prohibited discrimination on the basis of race, religion, or national origin, and applied to entities receiving federal funds, employers, and places of public accommodation, it did not extend protection to people with disabilities.⁸⁷

⁸⁰ *Id.* at 378.

⁸¹ *Id.* at 380.

⁸² *Tennessee v. Lane*, 124 S. Ct. 1978 (2004); *see also* 42 U.S.C. § 12132 (2003).

⁸³ *Lane*, 124 S. Ct. at 1984-94.

⁸⁴ *See, e.g.*, H.R. 12, 154, 92d Cong. 1st Sess., 117 CONG. REC. 45,945 (1971); S.3044, 92d Cong., 2d Sess., 118 CONG. REC. 525 (1972); H.R. 14, 033, 92d Cong., 2d Sess., 118 CONG. REC. 9712 (1972); H.R. 370, 99th Cong., 1st Sess., 131 CONG. REC. H104 (daily ed. Jan., 7, 1985).

⁸⁵ *Id.*

⁸⁶ Title V of the Rehabilitation Act initiated the process of protecting the basic equal rights of people with disabilities. *See* 29 U.S.C. §§ 790-794 (1994).

⁸⁷ 42 U.S.C. §§ 2000a-2000e (1997).

With some modifications, Congress enacted the ADA on July 26, 1990 pursuant to its powers under the Fourteenth Amendment and the Interstate Commerce Clause.⁸⁸ The ADA was heralded as one of the most sweeping, comprehensive pieces of legislation designed to correct the historical exclusion of disabled individuals from specific social contexts. Borrowing language from the National Council on the Handicapped, the ADA was specifically enacted “to provide a clear and comprehensive national mandate for the elimination of discrimination against individuals with disabilities” and “to provide clear, strong, enforceable standards addressing discrimination against people with disabilities.”⁸⁹ In its enumerated findings, the ADA described individuals with disabilities as “a discrete and insular minority, subjected to a history of purposeful unequal treatment, and relegated to a position of political powerlessness in our society, based on characteristics that are beyond the control of such individuals and resulting from stereotypic assumptions not truly indicative of the individual ability of such individuals to participate in, and contribute to, society.”⁹⁰

For purposes of the act, a “disabled” person must have “a physical or mental impairment that substantially limits one or more of the major life activities,” have “a record of such an impairment,” or be “regarded as having such an impairment.”⁹¹ This definition of disability applies to the antidiscrimination provisions in each of the ADA’s titles, which regulate employment (Title I), public services (Title II), public accommodations offered by private entities (Title III), and telecommunications (Title IV).⁹² Of these titles, only I and II have clashed with the restrictions of the Eleventh Amendment because only Title I and Title II provide litigants with a right to seek monetary damages from state government entities.⁹³

Title II of the ADA prohibits disability-based discrimination in the provision of public services. It provides that “no qualified individual with a disability shall, by reason of such disability, be excluded from participation in or be denied the benefits of the services, programs, or

⁸⁸ Though in 1996, the Court rejected the principle that Congress could use its powers under the Interstate Commerce Clause to abrogate states’ sovereign immunity in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996). The Senate passed the final bill on July 12, 1990 with a vote of 377 in favor of the bill and 28 opposing. The House passed the final version on July 13, 1990 with 91 in favor of the bill and 6 opposing.

⁸⁹ 42 U.S.C. § 12101(b)(1)-(2) (2003).

⁹⁰ 42 U.S.C. § 12101 (a)(7).

⁹¹ 42 U.S.C. § 12102 (2) (2003).

⁹² 42 U.S.C. §§ 12111-12117, §§12131-12165, §§12181-12189 (2003). 47 U.S.C. §225 (2003); see also Seth A. Horvah, *Disentangling the Eleventh Amendment and the Americans with Disabilities Act: Alternative Remedies for State-Initiated Disability Discrimination under Title I and Title II*, 2004 U. ILL. L. REV. 231, 240 (2004).

⁹³ Horvah, *supra* note 92.

activities of a public entity or be subjected to discrimination by any such entity.⁹⁴ Unlike Title I, Title II applies specifically to public entities and prohibits state courts, state agencies, or individual state officials from engaging in discriminatory conduct against the disabled. It applies whenever the conduct denies state benefits or restricts participation in any public program or activity such as public education, transportation, recreation, health care, social services, law enforcement, court proceedings, or the political process itself.⁹⁵

B. *Tennessee v. Lane*

Following *Garrett*, the Sixth Circuit Court of Appeals, sitting en banc, heard argument in *Popovich v. Cuyahoga County Court of Common Pleas*.⁹⁶ a suit brought by a hearing-impaired litigant who sought money damages under Title II of the ADA for the state's failure to accommodate his disability in a child custody proceeding.⁹⁷ The majority interpreted *Garrett* to bar private ADA suits against states based on equal protection principles, but not those relying on the due process clause.⁹⁸ The Sixth Circuit therefore permitted a Title II damages action, based on a due process right of access to the courts, to proceed against the state's immunity claim.⁹⁹

In 1998 George Lane and Beverly Jones, both paraplegics who use wheelchairs, filed a lawsuit against the State of Tennessee and 25 Tennessee counties alleging that several courthouses in the state were inaccessible to them.¹⁰⁰ After police charged Lane with two misdemeanor offenses in 1996, he was summoned to appear at the Polk County Courthouse in Benton, Tennessee.¹⁰¹ At that time, all court proceedings in the courthouse took place on the second floor and the courthouse had no elevator.¹⁰² At his first appearance, Lane dragged himself up two flights of stairs to get to the courtroom.¹⁰³ Once there, he was arraigned and ordered to appear at a later date for hearing.¹⁰⁴ Upon his return, Lane refused to climb to the courtroom and declined to be carried by officers.¹⁰⁵ The court ordered Lane's arrest, and he was

⁹⁴ 42 U.S.C. § 12132.

⁹⁵ See 42 U.S.C. §§ 12131-12165; see also Legal Issues, *supra* note 19.

⁹⁶ *Popovich v. Cuyahoga County Court of Common Pleas*, 276 F. 3d 808 (6th Cir. 2002).

⁹⁷ *Id.*

⁹⁸ *Id.* at 811-16.

⁹⁹ *Id.* at 815-16.

¹⁰⁰ *Lane*, 124 S. Ct. at 1982.

¹⁰¹ *Id.* at 1982-1983; see also Legal Issues, *supra* note 19.

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 1983.

jailed.¹⁰⁶ In subsequent proceedings, Lane remained on the ground floor while his counsel went back and forth between him and the second-floor courtroom.¹⁰⁷ He ultimately pled guilty to driving with a revoked license in the accident in which he lost his leg.¹⁰⁸ Jones, a certified court reporter in Tennessee, alleged that because many courthouses in Tennessee are inaccessible to her, her opportunity to work and participate in the judicial process has been limited.¹⁰⁹ At the time the complaint was filed, Jones identified 25 counties in Tennessee that were inaccessible to her.¹¹⁰

Lane and Jones brought suit under Title II of the ADA, which prohibits government entities from denying access to public services to individuals on the basis of disability.¹¹¹ In the District Court, the State of Tennessee argued that Congress lacked the power to abrogate the states' immunity from damage claims in federal court under the Eleventh Amendment.¹¹² Following the *Popovich* decision, the Court of Appeals for the Sixth Circuit affirmed the lower court's denial of Tennessee's motion to dismiss and upheld the constitutionality of Title II as a means to enforce due process violations.¹¹³ Tennessee then sought review in the Supreme Court, which Lane and Jones supported.¹¹⁴

On May 17, 2004, the Supreme Court affirmed the decision of the Sixth Circuit holding that Title II of the ADA, as applied to cases implicating the fundamental right of access to the courts, constitutes a valid exercise of Congress' enforcement power under the Fourteenth Amendment.¹¹⁵ In determining whether Congress constitutionally abrogated Tennessee's Eleventh Amendment immunity, the Court required the resolution of two predicate questions: (1) whether Congress unequivocally expressed its intent to abrogate that immunity; and (2) if so, whether it acted pursuant to valid grant of constitutional authority.¹¹⁶ The first question was easily answered as the ADA specifically provides: "A State shall not be immune under the eleventh amendment to the Constitution of the United States from an action in Federal or

¹⁰⁶ *Id.*

¹⁰⁷ Legal Issues, *supra* note 19.

¹⁰⁸ *Id.*

¹⁰⁹ *Lane*, 124 S. Ct. at 1983.

¹¹⁰ Legal Issues, *supra* note 19.

¹¹¹ 42 U.S.C. §§ 12131-12165.

¹¹² *Lane v. Tennessee*, 315 F.3d 680, 682 (6th Cir. 2003), *aff'd*, *Tennessee v. Lane*, 541 U.S. 509 (2003); *see also Lane*, 124 S. Ct. at 1983.

¹¹³ *Id.*

¹¹⁴ *Lane*, 124 S. Ct. at 1984.

¹¹⁵ *Id.* at 1984-94.

¹¹⁶ *Id.* at 1985 (citing *Kimel*, 528 U.S. at 72-73).

State court of competent jurisdiction for a violation of this chapter.”¹¹⁷ The Court then turned to the second question.

Following the three-prong abrogation analysis articulated in *Garrett*, the Court identified the Constitutional right or rights that Congress sought to enforce when it enacted Title II.¹¹⁸ The Court found that Title II, like Title I, seeks to enforce the Fourteenth Amendment’s prohibition on irrational disability discrimination.¹¹⁹ But, the Court reasoned, “it also seeks to enforce a variety of other basic constitutional guarantees, infringements of which are subject to more searching review.”¹²⁰ The Court deemed the constitutional right at issue in *Lane* to be the right of access to the courts guaranteed by the Due Process Clause of the Fourteenth Amendment.¹²¹

Next, the Court looked to the historical record documenting the unconstitutional treatment of disabled persons in the administration of state services and programs. The Court found that the historical experience reflected in Title II is documented in its past decisions, “which have identified unconstitutional treatment of disabled persons in a variety of settings.”¹²² The Court further found that the decisions of other courts document a pattern of unconstitutional treatment “in the administration of a wide range of public services, programs, and activities, including the penal system, public education, and voting.”¹²³

With respect to the particular right at issue in this case, Congressional findings showed that many states were excluding individuals from courthouses and court proceedings by reason of their disabilities.¹²⁴ A report before Congress found that 76% of public services and programs housed in state-owned buildings were inaccessible to and unusable by such persons.¹²⁵ Congress also heard testimony from disabled persons describing the inaccessibility of local courthouses; and its appointed task force heard examples of their exclusion from state judicial services and programs, “including exclusion of persons with visual and hearing impairments from jury service, failure to provide interpretive services for the hearing impaired, failure to permit the testimony of adults with developmental disabilities in abuse cases, and failure to make courtrooms accessible to witnesses with physical disabilities.”¹²⁶

¹¹⁷ 42 U.S.C. § 12202. (2003).

¹¹⁸ *Lane*, 124 S. Ct. at 1988 (citing *Garrett*, 531 U.S. at 365).

¹¹⁹ *Id.* at 1988.

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.* at 1989.

¹²³ *Id.*

¹²⁴ *Id.* at 1990.

¹²⁵ *Id.*

¹²⁶ *Id.* at 1991.

The Court asserted that “the sheer volume of evidence demonstrating the nature and extent of unconstitutional discrimination against persons with disabilities in the provision of public services” makes clear that the inadequate provision of these services and access to public facilities is “an appropriate subject for prophylactic legislation.”¹²⁷

The Court subsequently examined whether Title II was an appropriate response to this history and pattern of constitutional violations.¹²⁸ As articulated in *City of Boerne*, there must be a “congruence and proportionality between the injury to be prevented or remedied and the means adopted to that end.”¹²⁹ In its analysis, the Court reasoned that the remedy chosen by Congress in its enactment of Title II is a limited one.¹³⁰ Recognizing that failure to accommodate the disabled “will often have the effect of outright exclusion, Congress required the States to take reasonable measures to remove architectural and other barriers to accessibility.”¹³¹ However, the legislation does not require that States employ any and all means to make judicial services accessible to persons with disabilities or to compromise essential eligibility requirements for public programs.¹³² It merely requires “‘reasonable modifications’ that would not fundamentally alter the nature of the service provided, and only when the individual seeking modification is otherwise eligible for the service.”¹³³ The Court found that “this duty to accommodate is consistent with the well-established due process principle that, ‘within the limits of practicability, a State must afford to all individuals a reasonable opportunity to be heard’ in its courts”.¹³⁴ Hence the Court deemed Title II’s affirmative obligation to accommodate a “reasonable prophylactic measure, reasonably targeted to a legitimate end” and upheld Title II as a valid exercise of Congress § 5 power to enforce the guarantees of the Fourteenth Amendment.¹³⁵

C. Due Process Implications

Because Title II implicates due process rights, it applies in many situations where the court has said state action is subject to heightened scrutiny. Policies interfering with fundamental rights, such as access to judicial proceedings or the right to vote, are subject to a more exacting level of scrutiny and require more persuasive justification than a mere

¹²⁷ *Id.* at 1991, 1992.

¹²⁸ *Id.* at 1992.

¹²⁹ *City of Boerne*, 521 U.S. at 520.

¹³⁰ *Lane*, 124 S. Ct. at 1993; 42 U.S.C. § 12131 (2).

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Id.*

¹³⁴ *Lane* 124 S. Ct. at 1994 (citing *Boddie v. Connecticut*, 401 U.S. 371, 379 (1971)).

¹³⁵ *Id.* at 1994.

rational basis.¹³⁶ In *Garrett*, the Court noted that “Title I does not encompass claims based on substantive rights under the Due Process Clause” and identified the constitutional right at issue as freedom from employment discrimination based on disability.¹³⁷ Under *Cleburne*, such discrimination is subject only to rational basis review.¹³⁸ The Court noted in *Hibbs*—where it contrasted the standard of review applied to family and medical leave policies with the types of disability discrimination at issue in *Garrett*—that the evidence of state violations in *Garrett* was lacking in large part due to the great deference to the states under rational basis review.¹³⁹ In contrast, because the fundamental right of access to the court was implicated in *Lane*, the Court found that Congress was well within its express authority under § 5 of the Fourteenth Amendment to require states to accommodate those with disabilities. Hence the heightened level of scrutiny applicable to fundamental rights made it easier to show that the states had engaged in a pattern of constitutional violations requiring an appropriate Congressional remedy.

VI. DUE PROCESS V. SOVEREIGN IMMUNITY: APPLICATIONS IN OTHER SETTINGS

In *Lane*, the Supreme Court declined to decide whether Title II as a whole satisfies the *Boerne*’s three-step congruence and proportionality requirement.¹⁴⁰ Instead, the Supreme Court adopted an “as-applied” test, stating that “nothing in our case law requires us to consider Title II, with its wide variety of applications, as an undifferentiated whole... because we find that Title II unquestionably is valid § 5 legislation as it applies to the class of cases implicating the accessibility of judicial services, we need go no further.”¹⁴¹ As such, federal district courts have been struggling with the task of deciding whether, in its enactment of Title II of the ADA, Congress validly abrogated States’ immunity in areas other than access to courts.

A. Access to Educational Programs

In the United States District Court for the District of Connecticut, James Johnson brought an action against Southern Connecticut State University and the Bridgeport Hospital Nurse Anesthesia Program for

¹³⁶ *Id.*

¹³⁷ *Garrett*, 531 U.S. at 365, 366.

¹³⁸ *Cleburne*, 473 U.S. at 446.

¹³⁹ *Hibbs*, 538 U.S. at 731.

¹⁴⁰ *Lane*, 124 S. Ct. at 1992-93.

¹⁴¹ *Id.*

violation of Title II of the ADA.¹⁴² After completing the academic stage of the nurse-anesthetist training program at Southern Connecticut in May 1999, Johnson began the clinical nursing portion of the program.¹⁴³ However, in March 2001, his performance level in the clinical portion began to decline due to extreme anxiety.¹⁴⁴ After meeting with the medical director for the program, Johnson was informed that his clinical work had been suspended until September 1, 2001.¹⁴⁵ Three months after his return in September, Johnson was dismissed from the program.¹⁴⁶ Johnson claims that despite the defendants' knowledge of his mental disability, the defendants failed to reasonably accommodate him during the three month time period between his return from his leave of absence until the time he was dismissed.¹⁴⁷ As a result, Johnson alleged a violation of Title II of the ADA for disability discrimination in education, requesting monetary damages.¹⁴⁸

In its analysis, the District Court reasoned:

In the wake of *Lane*, it appears that a private suit for money damages under Title II of the ADA may be maintained against a state only if the plaintiff can establish that the Title II violation involved a fundamental right...The Supreme Court has repeatedly held that the right to an education is neither explicitly nor implicitly granted in the Constitution, and as such, cannot be considered 'fundamental.'¹⁴⁹

Moreover, the Court stated, "Johnson's action arises in the higher education setting" and there is "no fundamental right to a higher education."¹⁵⁰ As such, the Court dismissed Johnson's claim under Title II of the ADA.¹⁵¹

¹⁴² *Johnson v. Southern Connecticut State University and Bridgeport Hospital School of Nurse Anesthesia*, No. 3:02-CV-2065, 2004 U.S. Dist. LEXIS 21084, at *1 (D. Conn. Sept. 30, 2004).

¹⁴³ *Id.* at *4

¹⁴⁴ *Id.*

¹⁴⁵ *Id.* at *5.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at *6.

¹⁴⁸ *Id.*

¹⁴⁹ *Id.* at *13; see *San Antonio Independent School District v. Rodriguez*, 411 U.S. 1, 35-37 (1973) (rejecting claim that education is a fundamental right); see also *Kadrmas v. Dickinson Public Schools*, 487 U.S. 450, 458 (1988); *Papasan v. Allain*, 478 U.S. 265, 284-85 (1986); *Martinez v. Bynum*, 461 U.S. 321, 328 (1983); *Plyler v. Doe*, 457 U.S. 202, 223 (1982).

¹⁵⁰ *Johnson*, 2004 LEXIS 21084, at *14.

¹⁵¹ *Id.* at *15,

Since *Lane*, another district court has held that education is not a fundamental right for purposes of Title II.¹⁵² In *McNulty v. Board of Education of Calvert County*,¹⁵³ a secondary school student diagnosed with Attention Deficit Hyperactivity Disorder was subjected to various disciplinary measures by school personnel.¹⁵⁴ Ryan McNulty was suspended, reassigned to an alternative education program, and threatened with failing grades.¹⁵⁵ At two meetings held about his behavioral issues, school administrators and officials voted that his conduct was not a manifestation of his disability.¹⁵⁶ McNulty brought this action alleging disability discrimination in violation of Title II of the ADA and requesting money damages.¹⁵⁷

In its analysis, the District Court noted that the *Lane* Court “did not decide whether the statutory abrogation of sovereign immunity was constitutional with regard to non-fundamental rights, such as education.”¹⁵⁸ Therefore, it held that Eleventh Amendment immunity remains intact for education claims under Title II of the ADA.¹⁵⁹

B. *Employment*

In September 2004, the United States District Court for the District of Connecticut considered whether Title II covered disability discrimination by municipal employers.¹⁶⁰ Plaintiff Kelly Cormier, a public safety dispatcher for the City of Meriden, brought suit against the City alleging intentional discrimination in violation of Title II of the ADA.¹⁶¹ Cormier suffers physical impairments resulting from multiple sclerosis and alleged that her supervisors refused to reasonably accommodate her request for a work schedule modification recommended by her physician.¹⁶²

The District Court found that Title II of the ADA only prohibits discrimination in public services and does not cover employment discrimination.¹⁶³ The Court reasoned that the differences between Title I and Title II were of such significance to the *Lane* Court as to warrant

¹⁵² See *McNulty v. Board of Education of Calvert County*, No. CIV.A. 2003-2520, 2004 U.S. Dist. LEXIS 12680 (D. Md. July 8, 2004).

¹⁵³ *Id.*

¹⁵⁴ *Id.* at *1.

¹⁵⁵ *Id.* at *1-2.

¹⁵⁶ *Id.* at *1.

¹⁵⁷ *Id.* at *2.

¹⁵⁸ *Id.* at *3; see also *Lane*, 124 S. Ct. at 1982.

¹⁵⁹ *McNulty*, 2004 LEXIS 12680, at *3.

¹⁶⁰ *Cormier v. City of Meriden*, No. 3:03CV1819, 2004 U.S. Dist. LEXIS 21104 (D. Conn. Sept. 30, 2004).

¹⁶¹ *Id.* at *1.

¹⁶² *Id.* at *1-2.

¹⁶³ *Id.* at *2.

different outcomes in its sovereign immunity analysis.¹⁶⁴ In *Garrett*, the Supreme Court found that Title I was not a valid abrogation of state sovereign immunity because there was insufficient factual evidence of past state discrimination in employment.¹⁶⁵ In contrast, the *Lane* Court found a substantial record of “evidence demonstrating the nature and extent of unconstitutional discrimination against persons with disabilities in the provision of public services.”¹⁶⁶ The Court went on to say that the *Lane* opinion provides a “fairly strong indication that the Supreme Court would not consider Title II to be the appropriate statutory vehicle for employment cases.”¹⁶⁷ As such, the District Court interpreted the provisions of Title II as not extending to discrimination in municipal employment.¹⁶⁸

C. Professional Licenses

In August 2004, The United States District Court for the Southern District of New York considered whether disability discrimination in the granting of licenses to professionals merited the abrogation of states’ sovereign immunity under Title II.¹⁶⁹ In July 2002, Jane Roe filed an application with the Committee for admission to the Bar of the State of New York.¹⁷⁰ Question 18(c)(1) of the application asked whether the applicant had any mental or emotional condition that would adversely affect his or her ability to practice law.¹⁷¹ Roe answered in the negative; however, during a meeting with members of the Committee the following January, Roe was asked whether she was being seen by a psychiatrist, how long she had been seeing the psychiatrist, and what diagnosis the psychiatrist had given her.¹⁷² Soon afterwards, she received a letter from the Committee requesting that she provide a letter from a treating psychologist or psychiatrist describing her condition, prognosis, and diagnosis.¹⁷³ Roe, alleging that the Committee regards her as impaired within the meaning of the ADA, sought money damages from the state under Title II of the ADA based on a claim of disability discrimination in admission to the state bar.¹⁷⁴

¹⁶⁴ *Id.* at *19.

¹⁶⁵ *Garrett*, 531 U.S. at 370; *see also Lane*, 124 S. Ct. at 1987.

¹⁶⁶ *Cormier*, 2004 LEXIS 21104, at *19-20; *Lane*, 124 S. Ct. at 1991.

¹⁶⁷ *Id.* at *20.

¹⁶⁸ *Id.* at *34.

¹⁶⁹ *Roe v. Supreme Court of the State of New York*, Appellate Division First Department, 334 F. Supp. 2d 415 (S.D.N.Y. 2004).

¹⁷⁰ *Id.* at 417.

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Id.* at 417-418.

The Court in *Roe* found that “because of an absence of legislative findings establishing a pattern of unconstitutional discrimination in this context, this application of Title II is not a valid exercise of congressional power under § 5 and does not abrogate a state’s Eleventh Amendment immunity.”¹⁷⁵ The Court stated, “The legislative record of the ADA does not include any findings documenting a pattern of state discrimination in the admission of attorneys to the bar, or more generally in the granting of licenses to professionals.”¹⁷⁶ It went on to say that the specific application of Title II to a state’s determination of an applicant’s qualification for the bar is far removed from the type of discrimination in the administration of public programs and services that *Lane* found to be supported by the congressional record.¹⁷⁷ Moreover, in contrast to the situation confronted in *Lane*, the application of Title II to bar applicants does not enforce basic constitutional guarantees whose violation would trigger a higher standard of judicial review.¹⁷⁸ Therefore, the Court reasoned, “there is no need to address the next prong of the § 5 inquiry and determine whether Title II’s remedial provisions are appropriately limited.”¹⁷⁹

D. Inmates’ Access to Justice

In September 2004, the United States Court of Appeals for the Eleventh Circuit considered whether Title II validly abrogates states’ sovereign immunity in the prison setting.¹⁸⁰ Tracy Miller, a paraplegic wheelchair-bound inmate at Georgia State Prison, was in disciplinary isolation in a high maximum security section of the prison.¹⁸¹ Able-bodied inmates in disciplinary isolation were housed in less stringent units and enjoyed more basic privileges.¹⁸² Because of the prison’s failure to accommodate his wheelchair or other disability-related needs, Miller brought suit seeking money damages for disability discrimination under Title II of the ADA.¹⁸³

Applying the *Boerne/Lane* test to Miller’s ADA claims, the District Court identified the constitutional right at issue to be the Eighth Amendment right to be free from cruel and unusual punishment, applicable to the States through the Fourteenth Amendment.¹⁸⁴ In

¹⁷⁵ *Id.* at 422.

¹⁷⁶ *Id.*

¹⁷⁷ *Id.*; *Lane*, 124 S. Ct at 1990.

¹⁷⁸ *Id.* at 423.

¹⁷⁹ *Id.*

¹⁸⁰ *Miller v. King, et al.*, 384 F.3d 1248 (11th Cir. 2004).

¹⁸¹ *Id.* at 1254.

¹⁸² *Id.*

¹⁸³ *Id.* at 1254-55.

¹⁸⁴ *Id.* at 1272.

assessing the history and pattern of state constitutional violations of this right, the Court said that the step-two inquiry had already been decided by the *Lane* Court.¹⁸⁵ In *Lane*, “the Supreme Court considered evidence of disability discrimination in the context of access to public services and programs generally, rather than focusing only on discrimination in the context of access to the courts, and concluded that Title II in its entirety satisfies *Boerne*’s step-two requirement that it be enacted in response to a history and pattern of States’ constitutional violations.”¹⁸⁶ However, the Court reasoned, “what makes this case radically different from *Lane* is the limited nature of the constitutional right at issue and how Title II, as applied to prisons, would substantively rewrite the Eighth Amendment.”¹⁸⁷ In *Lane*, the Supreme Court’s conclusion that Title II’s remedy is congruent and proportional in the access-to-courts context relied heavily upon the constitutional right at issue and the States’ due process obligation to provide individuals with access to the courts.¹⁸⁸ The District Court differentiated the “robust, positive due process obligation of the States to provide meaningful and expansive court access” from “the States’ Eighth Amendment negative obligation to abstain from ‘cruel and unusual punishment’”¹⁸⁹ Title II, it went on, prohibits far more state conduct in many more areas of prison administration than conceivably necessary to enforce the Eighth Amendment’s ban on cruel and unusual punishment.¹⁹⁰ Therefore, the Court held that Title II of the ADA, as applied in the Eighth Amendment context to state prisons, fails to meet the requirement of proportionality and congruence.¹⁹¹

In *Haas v. Quest Recovery Services, Inc.*¹⁹², the United States District Court for the Northern District of Ohio considered whether states’ immunity could be abrogated for disability discrimination in the context of State confinement facilities. In September 2002, Plaintiff Rachel Haas suffered various injuries when a truck struck her all terrain vehicle.¹⁹³ Soon afterwards, the Ohio Highway Patrol cited Haas for driving under the influence of alcohol at the time of the accident.¹⁹⁴ She pled guilty to the charges and was sentenced to confinement in a drug and alcohol treatment facility for two six-day periods.¹⁹⁵ Haas alleged

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*; *Lane*, 124 S. Ct. at 1992.

¹⁸⁷ *Miller*, 384 F.3d at 1273.

¹⁸⁸ *Id.* at 1274.

¹⁸⁹ *Id.*

¹⁹⁰ *Id.*

¹⁹¹ *Id.* at 1275.

¹⁹² 338 F. Supp. 2d 797 (N.D. Ohio 2004).

¹⁹³ *Id.* at 799.

¹⁹⁴ *Id.*

¹⁹⁵ *Id.*

that the facility lacked proper accommodations for her injuries, such as an elevator and disabled-access toilets and showers, and brought this action for disability discrimination in violation of Title II of the ADA.

In its analysis, the District Court noted: “*Lane* expressly limited its abrogation of Eleventh Amendment immunity to Title II claims regarding ‘the constitutional right of access to the courts. Plaintiff’s claims do not fit those other categories of fundamental rights identified by the Court in *Lane* and do not implicate the right of access to the courts, the right to be present at trial, the right to a meaningful opportunity to be heard, the right to a trial by jury, or the public’s right of access to criminal proceedings.”¹⁹⁶ Instead, the Court reasoned, Plaintiff’s claims against Ohio sound in equal protection, not due process.¹⁹⁷ The Court therefore held that Title II does not abrogate Ohio’s Eleventh Amendment immunity to Plaintiff’s ADA claims.¹⁹⁸

VII. FUTURE IMPLICATIONS OF *LANE*

The *Lane* decision, allowing suit to proceed against Tennessee for its failure to provide disabled individuals access to state courtrooms, may herald a new era for the ADA, especially where due process rights are implicated. Yet advocates are concerned that by not explicitly extending the ruling to all public venues, the Supreme Court continues in its trend to narrow the scope of the Act.¹⁹⁹ In *Lane*, the Court stated, “Whatever might be said about Title II’s other applications, the question presented in this case is not whether Congress can validly subject the States to private suits for money damages for failing to provide reasonable access to hockey rinks, or even to voting booths, but whether Congress had the power under § 5 to enforce the constitutional right of access to the courts.”²⁰⁰ Because of its applicability to so many situations, invoking so many constitutional rights, Title II did not lend itself to an “all or nothing” abrogation analysis. Nonetheless, requiring that potential plaintiffs establish that states have engaged in a history of constitutional violations in particular areas (voting, educational benefits, transportation, etc.) places an undue burden on Congress’ power to structure remedies.²⁰¹ Moreover, it creates significant uncertainty about the reach of the Title II remedy.²⁰² Sylvia Yee, an attorney with the Disability Rights Education and Defense Fund, noted that the decision’s narrow-

¹⁹⁶ *Id.* at 803; *Lane*, 124 S. Ct. at 1988-93.

¹⁹⁷ *Haas*, 338 F. Supp. 2d at 803.

¹⁹⁸ *Id.*

¹⁹⁹ Valerie Jablow, *Court-Access Decision’s Narrow Scope Worries Advocates for the Disabled*, 40 TRIAL, July 2004, at 92.

²⁰⁰ *Lane*, 124 S. Ct. at 1993.

²⁰¹ Legal Issues, *supra* note 19.

²⁰² *Id.*

ness could have unfortunate consequences for people with disabilities: “It puts them in a real position of uncertainty...now [potential plaintiffs] really do have to look at this piecemeal: ‘Do we have a right to bring an action on this kind of access, on access to transportation or health services? Are they included?’ And that wasn’t the intent of the ADA. It was meant to open up the whole field of government services.”²⁰³

That said, the limitations of the *Lane* decision may soon be challenged again. On March 25, 2004, disabled plaintiffs filed a class action under Title II against the Washington Area Transit Authority, which runs Washington D.C.’s bus and subway systems, in an effort to improve access to public transportation for individuals with disabilities.²⁰⁴ Disability rights advocates hope that history is on their side given the Court’s careful description of the long history of disability discrimination in *Lane*.²⁰⁵ These advocates are confident that “the sheer volume of evidence demonstrating the nature and extent of unconstitutional discrimination against persons with disabilities” described there will be sufficient for the Court to apply Title II’s prophylactic legislation more broadly.²⁰⁶

VIII. CONCLUSION

Although recent Supreme Court jurisprudence appears to signal a shift away from the Court’s protection of states’ rights under the Eleventh Amendment, the as-applied analysis of the *Lane* Court raises as many questions as it answers. It appears, at least for now, that the only sure way for plaintiffs to be able to sue state agencies in federal courts for violations of federal law is to pressure state legislators to waive the State’s Eleventh Amendment immunity.²⁰⁷ For example, the State of Illinois has begun to allow state employees with a claim against the state under Title VII, the ADA, the ADEA, the FMLA, or the FLSA to file suit in either state or federal court.²⁰⁸ The State Lawsuit Immunity Act, as it is called, waives the State’s Eleventh Amendment immunity for the enumerated claims and represents the culmination of

²⁰³ Jablow, *supra* note 199, at 93.

²⁰⁴ Disability Rights Council of Greater Washington v. Washington Metropolitan Area Transit Authority, No. 1:04 CV 00498 (D.D.C. filed Mar. 25, 2004); *see also* Jablow, *supra* note 199, at 93. Final decisions in this case and in *Lane v. Tennessee*, remanded back to the United States District Court for the Middle District of Tennessee, are still pending.

²⁰⁵ Jablow, *supra* note 199, at 93.

²⁰⁶ *Lane*, 124 S. Ct. at 1991.

²⁰⁷ Sharmila Roy, *Suits Against States: What to Know About the Eleventh Amendment*, 41 ARIZ. ATT’Y, Oct. 2004, at 18, 26.

²⁰⁸ 745 ILCS 5/1.5 (2004).

a struggle by activists to get the state to waive its immunity in civil rights matters.²⁰⁹

For plaintiffs proceeding against states in suits pursuant to federal civil rights legislation without such a waiver, recent jurisprudence suggests that plaintiffs alleging violations involving “fundamental” due process rights will fare better than those alleging equal protection violations. The heightened scrutiny applied to fundamental due process rights, as compared to the more deferential standards applied under the Court’s equal protection analyses, increases the likelihood of litigant success in remedying violations of these rights despite the sovereign immunity barrier. As litigants have generally been unsuccessful in their efforts to seek money damages for state violations of federal equal protection laws, the Court’s ruling in *Lane* suggests that states’ sovereign immunity will give way to individual due process rights firmly rooted in the Constitution. Consequently, the *Lane* decision makes it clear that fundamental due process rights will carry greater constitutional protection than state sovereign immunity.

²⁰⁹ Roy, *supra* note 207, at 26.

GETTING IT “RIGHT:” THE EVERCHANGING NLRB PRECEDENTS ON COWORKER PRESENCE AT INVESTIGATORY INTERVIEWS

by DAVID P. TWOMEY*

I. INTRODUCTION

In 1973 the National Labor Relations Board (NLRB) issued its *Weingarten* decision, which held that an employer violates Section 8(a)(1) of the National Labor Relations Act (NLRA) when it denies an employee’s request for the presence of a union representative at an investigatory interview which the employee reasonably believes might result in disciplinary action.¹ The Board’s decision was upheld by the Supreme Court in *NLRB v. Weingarten, Inc.* in 1975.² The *Weingarten* right of an employee to request the presence of a coworker at an investigatory interview was extended to non-union workplaces by the Board’s 1982 *Material Research Corp.* decision.³ Three years later, in 1985, the Board reversed itself in *Sears, Roebuck Co.*, holding that *Weingarten* principles do not apply in nonunion settings.⁴ In the Board’s

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¹ 202 N.L.R.B. 446 (1973).

² 420 U.S. 251, 260 (1978).

³ 262 N.L.R.B. 1010 (1982).

⁴ 274 N.L.R.B. 230 (1985). In *Slaughter v. NLRB*, 794 F.2d 128 (3rd Cir. 1986) the Third Circuit Court of Appeals remanded to the Board the case of an employee discharged by his employer, E.I. Dupont, for refusing to submit to an investigatory interview with his supervisor without the presence of a coworker. The court determined that it is permissible, though not required, to determine that Section 7 of the NLRA protecting

year 2000 *Epilepsy Foundation of Northeast Ohio* decision, it reimposed its *Materials Research* holding, concluding that unrepresented employees have a right to have a coworker present during investigatory interviews.⁵ With major employer interest groups filing an *amici curiae* brief in support of the employer *Epilepsy Foundation's* challenge of the extension of *Weingarten* rights to nonunion workplaces, the Court of Appeals for the District of Columbia Circuit upheld the Board's renewed meaning of the statutory language in question stating in part:

"It is a fact of life in NLRB lore that [the meaning of] certain substantive provisions of the NLRA invariably fluctuate with the changing compositions of the Board. Because the Board's new interpretation is reasonable under the Act, it is entitled to deference."⁶

And, three years later, with the changing composition of the Board, on June 9, 2004, in a 3-2 decision, the Board reversed itself again in its *IBM Corp.* decision and ruled that nonunion employees do not have the right to have a coworker present during an investigatory interview.⁷

This article will present the Supreme Court's *Weingarten* precedent, and discuss the extent of the rule approved by the Supreme Court in that case. The Board's *IBM Corp.* decision will be presented. The administrative decision making process, and the impact of the changing compositions of the Board will be discussed. Finally, the article will consider whether the "right" decision was made by the Board in the *IBM Corp.* case.

II. THE WEINGARTEN DECISION

In *NLRB v. J. Weingarten, Inc.*,⁸ an employee at a Weingarten store who was being questioned by two company officials about reported thefts at the store, asked for but was denied the presence of her union representative at the interview.⁹ As a result the union filed an unfair

concerted activity as guaranteeing union members and unorganized employees alike the right to have a representative present at investigatory interviews (at 128). On remand in *E.I. Dupont*, the Board determined that although the Act did not compel its interpretation, nevertheless it was a permissible interpretation of the Act to conclude that the Act did not confer *Weingarten* rights on nonunionized employees, 289 N.L.R.B. 627,629-630 (1988). Thus the conclusion set forth in *Sears Roebuck* that *Weingarten* rights do not apply in nonunion settings continued as a result of the *Dupont* decision.

⁵ 331 N.L.R.B. 676 (2000).

⁶ *Epilepsy Foundation of Northeast Ohio v. NLRB*, 269 F.3d 1095, 1097 (3rd Cir. 2001).

⁷ 341 N.L.R.B. No. 148, 174 L.R.R.M. 1537 (BNA 2004).

⁸ 420 U.S. 251 (1975).

⁹ *Id.* at 254, 255.

labor practice charge with the National Labor Relations Board.¹⁰ The Board held that the employer had violated the act. However, the Fifth Circuit Court of Appeals refused to enforce the Board's order which directed the employer to cease and desist from requiring any employee to take part in an investigatory interview without union representation if the employee requests representation and reasonably fears disciplinary action.¹¹ The Supreme Court reversed the Court of Appeals' decision and remanded the case to that court.¹²

Section 7 of the NLRA states in part, "[e]mployees shall have the right...to engage in concerted activities for the purposes of...mutual aid or protection."¹³ The Board's construction of the language was that it created a statutory right in an employee to refuse to submit to an interview which the employee reasonably feared may result in discipline without union representation.¹⁴ The Board shaped the contours and limits of this statutory right. Accordingly, the right only arises in situations where the employee requests representation. The right to request representation as a condition of participation in an interview is limited to situations where the employee reasonably believes the investigation will result in disciplinary action.¹⁵ Moreover, the exercise of the right may not interfere with legitimate employer prerogatives.¹⁶ And, the employer has no duty to bargain with any union representatives permitted to attend such an investigatory interview. The representative is present to assist the employee and may attempt to clarify facts or suggest other employees who may have knowledge of the event.¹⁷

In a 5 to 3 ruling the Supreme Court majority held that the action of the employee in seeking to have the assistance of a union representative at a confrontation with an employer falls within the literal wording of Section 7.¹⁸ The Court determined that the Board's holding is a permissible construction of the language "concerted activities for... mutual aid or protection" by the agency charged by Congress with

¹⁰ 202 N.L.R.B. 446 (1973).

¹¹ NLRB v. Weingarten, 485 F.2d 1135 (5th Cir. 1973).

¹² *Weingarten*, 420 U.S. at 268.

¹³ 20 U.S.C. §157 (2000). It provides: "Employees shall have the right to self-organization to form, join or assist in labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, and shall also have the right to refrain from any or all of such activities except to the extent that such right may be affected by an agreement requiring membership in a labor organization as a condition of employment as authorized in section 158(a)(3) of this title."

¹⁴ *Weingarten*, 420 U.S. at 256.

¹⁵ *Id.* at 257.

¹⁶ *Id.* at 258.

¹⁷ *Id.* at 260.

¹⁸ *Id.*

enforcement of the Act.¹⁹ Moreover, the Court stated that it is the responsibility of the Board not the courts to adapt the Act to changing patterns of industrial life; and the Board's special competence in this field is the justification for the deference accorded its determination.²⁰ Thus the employer violated Section 8(a)(1) of the NLRA because it interfered with, restrained and coerced the individual rights of the employee protected by Section 7 "to engage in...concerted activities for the purpose of...mutual aid or protection..." when it denied her request for the presence of her union representative at the investigatory interview that the employee reasonably believed would result in disciplinary action.²¹ In Mr. Justice Powell's dissent, joined by Mr. Justice Stewart, he concluded:

[U]nion representation at investigatory interviews is a matter that Congress left to the bargaining process. Even after affording appropriate deference to the Board's meandering interpretation of the Act, I conclude that the right announced today is not among those that Congress intended to protect in §7. The type of personalized interview with which we are here concerned is simply not "concerted activity" within the meaning of the Act.²²

III. THE *IBM CORP.* DECISION

In *IBM Corporation* the 3-2 Board majority held that employees who work in a nonunion setting are not entitled under Section 7 of the NLRA to have a coworker present at an investigatory interview with their employers when the affected employees reasonably believe that the interview might result in discipline.²³ The Board thus overruled the *Epilepsy Foundation of Northeast Ohio* decision which gave employees in nonunion workforces the right to have a co-worker present during an investigatory interview.²⁴

IBM Corporation's facility at Research Triangle Park, North Carolina is a nonunion facility. In response to allegations of harassment contained in a letter from a former employee, an IBM manager interviewed three employees individually in October of 2001, after denying each employee's request to have a counselor present during the

¹⁹ *Id.*

²⁰ *Id.* at 266.

²¹ *Id.* at 257.

²² *Id.* at 277.

²³ 174 L.R.R.M. 1537 (BNA 2004). Chairman Battista and Member Meisburg, wrote the majority opinion with member Schaumber separately concurring. Members Liebman and Walsh wrote a dissenting opinion.

²⁴ *Id.* at 1544.

interview.²⁵ All three were discharged approximately a month after the interviews.²⁶ An administrative law judge, applying the *Epilepsy Foundation* precedent found that IBM violated Section 8(a)(1) of the Act by denying each employee's request for the presence of a coworker. A Board majority reversed the *Epilepsy* precedent in *IBM*.²⁷

The majority set forth its position that the reexamination of *Epilepsy Foundation* is a proper exercise of the Board's adjudicative authority, as was both anticipated and approved by the Supreme Court in *Weingarten*.²⁸ It pointed out that the *Weingarten* Court observed that it was in the nature of administrative decision-making to do so, quoting the Court as follows:

"Cumulative experience begets understanding and insight by which judgments...are validated or qualified or invalidated. The constant process of trial and error, on a wider and fuller scale than a single adversary litigation permits, differentiates perhaps more than anything else the administrative from the judicial process."²⁹

Because there is a Board precedent presenting two permissible interpretations of the statute, the decision as to which approach to follow is a matter of policy for the Board to decide in its discretion.³⁰ The Board majority concluded that policy considerations support the denial of the *Weingarten* right in the nonunionized workplace.³¹ It pointed out that coworkers do not represent the interests of the entire work force as would a union representative,³² and it pointed out that coworkers cannot redress the imbalance of power between employers and employees.³³ Moreover, the Board majority stated that coworkers do not have the same skills as a union representative.³⁴ Finally, the Board majority states that the presence of a coworker may compromise the confidentiality of information developed at the interview.³⁵ The Board majority summarized its position as follows:

Our reexamination of *Epilepsy Foundation* leads us to conclude that the policy considerations supporting that decision do not warrant, particularly at this time, adherence to the holding in *Epilepsy*

²⁵ *Id.* at 1538.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.* at 1539.

²⁹ *Id.* at 1540, quoting *NLRB v. Weingarten, Inc.* 420 U.S. 251, at 265-266 (1978).

³⁰ *Id.* at 1539.

³¹ *Id.* at 1543.

³² *Id.* at 1541.

³³ *Id.*

³⁴ *Id.* at 1542.

³⁵ *Id.*

Foundation. In recent years there have been many changes in the workplace environment, including ever-increasing requirements to conduct workplace investigations, as well as new security concerns raised by incidents of national and workplace violence.

Our consideration of these features of the contemporary workplace leads us to conclude that an employer must be allowed to conduct its required investigations in a thorough, sensitive, and confidential manner. This can best be accomplished by permitting an employer in a nonunion setting to investigate an employee without the presence of a coworker.³⁶

Member Schaumber joined the majority opinion's finding that policy considerations support the denial of the *Weingarten* right to the non-unionized workplace.³⁷ He believes that the *Weingarten* right is unique to employees represented by a Section 9(a) bargaining representative.³⁸

In their dissent, Members Liebman and Walsh wrote "Today, American workers without unions, the overwhelming majority of employees, are stripped of a right integral to workplace democracy."³⁹ The dissent refers to the following language of Section 7 of the NLRA, "the right to...engage in...concerted activities for the purpose of...mutual aid or protection" and states that it is hard to imagine an act more basic to "mutual aid or mutual protection" than an employee turning to a coworker for help when faced with an interview that might end up with the firing of the employee.⁴⁰ Citing the District of Columbia Court of Appeals decision approving the Board's *Epilepsy Foundation* decision, the dissent points out that the presence of a coworker gives an employee a potential witness, advisor, and advocate in an adversarial situation, and ideally militates against imposition of unjust discipline by the employer.⁴¹ They conclude:

"[I]t is our colleagues who are taking steps backwards. They have neither demonstrated that *Epilepsy Foundation* is contrary to the Act, nor offered compelling policy reasons for failing to follow precedent. They have overruled a sound decision not because they must, and not because they should, but because they can."⁴²

³⁶ *Id.* at 1540.

³⁷ *Id.* at 1545.

³⁸ *Id.* at 1554.

³⁹ *Id.*

⁴⁰ *Id.* at 1555.

⁴¹ *Id.* at 1559, quoting *Epilepsy Foundation v. NLRB*, 268 F.3d 1095, 1100 (D.C. Cir. 2001).

⁴² *Id.* at 1560.

IV. THE ADMINISTRATIVE PROCESS, LEGAL PARAMETERS AND THE CHANGING BOARD COMPOSITION

The Board majority in *IBM* asserted that its re-examination of the Board's *Epilepsy Foundation* precedent—as opposed to simply following the precedent—was a proper exercise of the Board's adjudicative process.⁴³ It relied on the Supreme Court's guidance in the *Weingarten* decision “that the constant process of trial and error, on a wider and fuller scale than a single adversary litigation permits, differentiates perhaps more than anything else the administrative from the judicial process.”⁴⁴ In Judge Edward's opinion on behalf of the District of Columbia Circuit Court of Appeals upholding the Board's *Epilepsy Foundation* decision, this renowned labor law scholar and jurist stated that “it is a fact of life in NLRB lore that certain substantive provisions of the NLRA invariably fluctuate with the changing compositions of the Board.”⁴⁵

The doctrine of *stare decisis*, the doctrine of following precedents in statutory interpretation by the courts, has been the subject of much discussion by preeminent Supreme Court justices. For example Justice Brandeis said in his dissenting opinion in *Burnet v. Coronado Oil & Gas Co.*:

“*Stare decisis* is usually the wise policy, because in most matters it is more important that the applicable rule of law be settled than it be settled right.”⁴⁶

In the ordinary case, considerations of certainty and equal treatment of similarly situated litigants will provide a strong incentive to adhere to precedent.⁴⁷ However Justice Frankfurter wrote for the court in *Helvering v. Hallock*:

“*Stare decisis* is a principle of policy and not a mechanical formula of adherence to the latest decision, however recent and questionable when such adherence involves collision with a prior doctrine more embracing in its scope, intrinsically sounder, and verified by experience.”⁴⁸

As opposed to the judicial process with its general acceptance of the doctrine of *stare decisis* and its narrow exceptions, the administrative

⁴³ *IBM Corp.*, 174 L.R.R.M. at 1539.

⁴⁴ *Id.* at 1544.

⁴⁵ *Epilepsy Foundation*, 268 F.3d at 1097.

⁴⁶ 285 U.S. 393, 406 (1932).

⁴⁷ *Boys Markets, Inc. v. Retail Clerks Union, Local 770*, 398 U.S. 235, 257 (1970).

⁴⁸ 309 U.S. 106, 119 (1940).

process relevant to labor relations law has a tradition of some fluctuation in the interpretation of substantive provisions of the NLRA with the changing compositions of the NLRB, as pointed out by Judge Edwards.⁴⁹ The *Epilepsy Foundation* decision was rendered by a Clinton-era Board on July 10, 2000. The decision was overturned by the *IBM Corp.* decision of the Bush-era Board on June 9, 2004.

The *Epilepsy Foundation* decision which for the first time in 18 years extended the right to have a coworker present during an investigatory interview to all unrepresented employees in the private sector was considered a major adverse decision by American business interest groups.⁵⁰ That is, while less than 10% of private sector employees are unionized, only these employees had the protection of *Weingarten* rights. Under *Epilepsy* all private sector individuals meeting the broad statutory definition of “employee” were entitled to these rights.⁵¹

The administrative process allows the Board to alter precedents to address changing circumstances according to the cumulative experience

⁴⁹ The five members of the NLRB are appointed by the President with the advice of and consent of the Senate, and serve five-year staggered terms. The President designates one member chairperson. 29 U.S.C. §153(a)(2000).

⁵⁰ Major business groups filed *amicus curiae* briefs in support of the employer’s petition for review of the *Epilepsy Foundation* decision before the U.S. Court of Appeals for the D.C. Circuit in 2001, including the Chamber of Commerce of the United States, the National Association of Manufacturers, the Associated Builders and Contractors, Inc., the International Mass Retail Association and the Florida Hospital Association. The AFL-CIO filed an *amicus curiae* brief in support of the Board’s application for enforcement of the decision against the employer.

It is interesting to note that in the *IBM Corp.* case the Board granted the joint request of LPA, Inc., The Equal Employment Advisory Council, Associated Builders and Contractors, the Chamber of Commerce of the United States, the Society for Human Resource Management, the International Mass Retail Association, and the National Association of Manufacturers, to file an *amicus* brief on behalf of the employer. The AFL-CIO did not file a brief in this case. However, Wal-Mart Stores, Inc. filed a response in support of the amici briefs because an Administrative Law Judge, following the Board’s *Epilepsy Foundation* decision had found that Wal-Mart had unlawfully discharged an unrepresented employee because he refused to participate in an investigatory interview, which he reasonably believed might result in discipline against him, unless Wal-Mart granted his request for his own witness. Wal-Mart Stores, Inc. and UFCWU Local 343, 343 N.L.R.B. No. 127 (Dec. 16, 2004).

As a result of the *IBM Corp.* decision the only way unrepresented employees can obtain the Section 7 right to a coworker witness at an investigatory interview is to vote for a union in a representation election. As set forth previously the AFL - CIO did not submit an *amicus curiae* brief to the *IBM Corp.* Board. It could be argued that more groups of unrepresented employees would join unions under IBM Corp. than Epilepsy Foundation because it would be the only way to obtain full Section 7 rights.

⁵¹ In 2003 8.2 percent of private-sector employees were unionized. See Bureau of Labor Statistics, “Union Members in 2003” News Release USD L 04-53 (Jan. 21, 2004). The definition of employee under the NLRA is set forth in 29 U.S.C. §152(3)(2000).

and the constant process of trial and error. Moreover, through the presidential appointment powers there can be an ever-changing composition of the Board. While a Board majority cannot create under the guise of “interpretation” a meaning for the Act that is unsustainable in order to achieve a desired result,⁵² the Board has the primary responsibility for applying the provisions of the Act to the complexities of industrial life, and as long as its interpretation is permissible, courts will defer to the expertise of the Board.⁵³

The *IBM Corp.* Board’s interpretation of the Act is permissible, but not “right” according to the dissent.⁵⁴ The dissent states that the majority overruled the *Epilepsy* decision not because they must or should, but simply “because they can”.⁵⁵ The *IBM Corp.* decision is well within the norms of the administrative process. The Board could legally do what it did do.⁵⁶

V. IS THE *IBM CORP.* DECISION “RIGHT”?

The Board decided that policy considerations support its decision to deny unrepresented employees, who make up over ninety percent of all non-management workers employed by the private sector in the United States, the right to have a coworker present during an investigatory interview that could lead to discipline. The policy considerations were that coworkers do not represent the interest of the entire work force as would a union representative;⁵⁷ that coworkers cannot redress the imbalance of power between employers and employees;⁵⁸ coworkers do

⁵² In Third Division Award No. 22431 (Twomey) of the National Railroad Adjustment Board, the Brotherhood of Railway, Airline and Steamship Clerks (BRAC) contended that under the Supreme Court’s *Weingarten* precedent a represented employee was wrongfully disciplined for refusing to stay at an investigatory interview without the presence of a union representative. The Board ruled since *Weingarten* was based on construction of Section 7 of the NLRA providing employees the right to engage in “... concerted activities for... mutual aid or protection...” and the Railway Labor Act had no comparable statutory language, then the Board was compelled to deny the claim. That is, the Board had no right to create language that was not present in the statute to provide a result that the Board believed to be just.

⁵³ See *Slaughter v. NLRB*, 794 F.2d 120, at 124 and 128, (3rd Cir. 1986).

⁵⁴ *IBM Corp.*, 174 L.R.R.M. at 1560.

⁵⁵ *Id.*

⁵⁶ In a January 10, 2005 interview Chairman Battista expressed the view of wanting labor law “to be stable, predictable and certain,” but that the NLRB is an administrative agency that interprets the law and makes labor policy. He expressed his view that there should be changed circumstances to justify overruling precedent, but that he is more willing to overturn precedent that is short in duration and that itself reversed a longer term precedent that was wrongly decided. S. J. McGoldrick, “Labor Outlook 2005”, 11 DLR S-13 (January 18, 2005).

⁵⁷ *IBM Corp.*, 174 L.R.R.M. at 1541.

⁵⁸ *Id.*

not have the same skills as union representatives;⁵⁹ and the presence of a coworker may compromise the confidentiality of information divulged at the interview.⁶⁰

Section 7 of the NLRA provides in part that employees shall have the right “to engage in...concerted activities for the purpose of... mutual aid or protection.” Unionized workers have the right to a representative at an investigatory interview under the literal meaning of the language quoted above.⁶¹ The plain language of Section 7 does not limit coverage to “unionized employees” nor does it turn on the skills or motives of the employee’s representative.⁶² Issues of confidentiality are the very same for the coworker representative as a union representative. The Board carefully shaped the contours and limits of the statutory Section 7 rights enunciated in *Weingarten*. The employer can end the interview at any time at its discretion. It need not bargain with the representative permitted to attend the interview. It ordinarily will refuse disclosure and discussion of medical records, if relevant, in the presence of a representative. The *Weingarten* representative is present to assist the employee and may attempt to clarify facts or suggest other employees who may have knowledge of the event.⁶³ The Board’s policy reasons simply do not make out a compelling case for refusing to allow nonunion workers the right to a coworker witness or representative at an investigatory interview.

Ordinarily a coworker witness is just that, a witness. He or she can listen to what is said, and if need be, confirm or deny statements or discussions made at the interview at any subsequent proceeding. The fact that a coworker, in good standing, is present gives the interview process an element of fairness. The employer is nevertheless in charge, with the power to terminate the interview and continue its investigation without the presence of the employee, as it sees fit. The transparency of simply having a coworker witness may result in the avoidance of unjust discipline that may occur when two or more management personnel team up against an individual employee in a private interview unwitnessed by an observer. Indeed, if justifiable discipline is administered subsequent to an interview where a coworker witness is present, the coworker may well recognize the appropriateness of the discipline and be an internal and credible voice supportive of management. If, on the other hand, management teams conduct investigatory interviews in private and disciplined employees feel unfairly treated, morale is

⁵⁹ *Id.* at 1542.

⁶⁰ *Id.*

⁶¹ *Weingarten*, 420 U.S. at 257.

⁶² *IBM Corp.* 174 L.R.R.M. at 1558.

⁶³ *Weingarten*, 420 U.S. at 260.

adversely affected and there may be sufficient suspicion and momentum in the workplace to seek union representation in order to attain the “mutual aid or protection” promised in Section 7 of the NLRA.⁶⁴

VI. CONCLUSION

The *IBM Corp.* decision will stand until the changing composition of the Board, aligned with an appropriate fact pattern illustrative of the complexities of the application of Section 7 rights to the unrepresented workplace, results in a reexamination of the extension of rights to the nonunion workplace. Congressional action to balance or adjust labor law reform issues has not been a viable option for either management or labor.

⁶⁴ An instructive, real life fact pattern can be found in the administrative law judge’s decision to the Board’s *Wal-Mart Stores, Inc. and UFCWIU, Local 343 decision*, 343 N.L.R.B. No. 127 (Dec. 16, 2004). The administrative law judge found that Wal-Mart had unlawfully discharged an unrepresented employee because he refused to participate in an investigatory interview which he reasonably believed might result in discipline unless Wal-Mart granted his request for his own witness. Because the judge’s findings were based on *Epilepsy Foundation* which was subsequently overruled by *IBM*, the judge’s ruling was overturned and the employer could lawfully deny the employee’s request for a witness and could lawfully require that he continue the investigatory interview without the presence of his requested witness. Co-manager Manderson waited for the employee in question to report to work, and accompanied by an assistant manager and with, at Manderson’s request, a police officer standing nearby, Manderson asked the employee to follow him to his office. The employee responded that he was not going anywhere to meet with Manderson unless he had a witness present to which the manager directed that he could not have a witness. The refusal to participate in the investigatory interview without the presence of his own witness constituted a factor in Wal-Mart’s decision to discharge the employee.

STALKING IN THE WILDERNESS: A PREVENTATIVE VIEW OF THE LAW OF SEXUAL HARASSMENT

by BRUCE W. WARREN* and THOMAS B. MERRITT**

I. INTRODUCTION

One of the most difficult subjects for an employer in the human resources areas is sexual harassment. The reason that it is so difficult for the employer is that the subject has many facets. First, the topic is relatively new. When we examine the common law system that has evolved in the United States, we can examine on topics such as wills and trusts, a body of law that has existed for over three hundred years. History is important because courts have precedent to review and rely upon in making their decisions.

The law of sexual harassment does not have a long history. The Sex Discrimination Guidelines date only from 1980.¹ The case law on sexual harassment is constantly evolving, with new federal decisions being handed down by various circuit courts and district courts on a daily basis. In some cases there have been inconsistent decisions among the several appellate circuits and among district courts within a circuit.

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¹ Guidelines on Discrimination on the Basis of Sex, Equal Employment Opportunity Commission, Nov. 10, 1980, 29 C.F.R. § 1604.11 (a) (3) (1993). *See* Civil Rights Act of 1964, §§ 701 et seq., 42 U.S.C. §§ 2000e et seq., esp. § 2000e-2 (a) (1).

This further complicates this area for employers, and especially for employers who operate in multiple states.

A further problem for employers is the manner in which sexual harassment occurs. Many times only the alleged victim and the alleged harasser have knowledge of the facts related to a particular complaint. Commonly, the offending conduct is committed furtively, in private with the door closed. The alleged harasser goes to great length to hide the objectionable activity. The secretive nature of alleged sexual harassment makes it very difficult for an employer to investigate a complaint.

Other problems employers experience result from (a) failure to promulgate a sexual harassment policy, setting forth a process for complaint and investigation, (b) failure to maintain the confidentiality of sexual harassment investigations, and (c) lack of documentation regarding investigations and disposition of sexual harassment cases. An employer must seek to build a record of every stage of its internal procedure.

The issue of sexual harassment is with us today more than ever before. Examples of sexual harassment are numerous in all sectors, whether public or private, academic or military. Noteworthy examples would be the romantic dalliances of President Clinton; the embroglio of Clarence Thomas, a U.S. Supreme Court nominee and Anita Hill; and, more recently, the sexual harassment accusations of Andrea Mackris, a former Fox News associate producer, against Bill O'Reilly of "The O'Reilly Factor." O'Reilly claimed that Mackris was attempting to extort money from him by making her allegations.² Interestingly, the ratings of O'Reilly's show actually increased while the sex scandal was going on!³

Other examples would have to include Yale University alumna Naomi Wolf's article in *New York Magazine* alleging that Professor Harold Bloom, a Shakespearean scholar at Yale, sexually harassed her in 1983.⁴ Recently, a judge ruled that "[a] television host who says she was groped by California Governor Arnold Schwarzenegger four years ago and then libeled by his aides can take legal action in [a] British Court."⁵ It has been reported that Lisa Minelli's bodyguard claims to have been sexually harassed while in her employ and is suing her for \$100 million.⁶

² *O'Reilly Accuser Settles Lawsuits*, BOSTON HERALD, Oct. 29, 2004, at 21.

³ Sarah Rodman, *Sex Scandal Spins Up O'Reilly Rating*, BOSTON HERALD, Oct. 30, 2004, at 16.

⁴ Marcia Bombardieri and Jenna Russell, *Ivy League Scandal to Hit Newsstands*, BOSTON GLOBE, Feb. 22, 2004, at E11.

⁵ DAILY NEWS, Oct. 31, 2004, at A9.

⁶ BOSTON HERALD, Nov. 12, 2004, at 17.

The pervasiveness of sexual harassment in the workplace was highlighted in a recent article, where the author stated,

“In fiscal 2003, the Equal Employment Opportunity Commission got 13,566 sexual harassment complaints, up from 10,532 in 1992, a year after Hill came forward. In addition, monetary awards associated with settling the claims rose to \$50 million last year, up from \$12.7 million 12 years ago. Although women continue to lodge more complaints than men, the agency says complaints by men represented 14.7% of the charges filed last year, up from 9.1% in 1992.”⁷

This demonstrates the growing trend, predicated upon the increasing number of complaints and the significant publicity associated with the more prominent complaints. The article continued,

“Last year, for example, Dial Corporation agreed to pay \$10 million to settle a sexual harassment lawsuit filed by the EEOC on behalf of 100 female workers at an Illinois plant.”⁸

This case involved alleged threatening, stalking, lewd remarks, physical attacks, and exposure to pornography.⁹ What is shocking is that this kind of alleged conduct is proliferating in the workplace, further evidencing the scope of this problem.

Many sexual harassment complaints and related court cases have evolved from office romances gone awry. The authors have noticed a number of publications recently discussing the subject of office romances, an escalating problem for employers. The workplace is no longer the domain of the male employee; women now are represented in roughly the same percentages as men. Additionally, Americans spend more time at work than do many other cultures, with American men and women spending more time together in the workplace than ever before. This additional work time contributes to the problem of office romances.

The author of a recent article in the Boston Sunday Globe suggests a host of complications from office romances, for both the employer and the employee.¹⁰ The author suggests that technology in the form of e-mail, cellular phones, and the like has encouraged office romance. The author continues,

⁷ Diane E. Lewis, *Sexual Harassment Still Dark Cloud in Workplace*, BOSTON GLOBE, Oct. 31, 2004, at G6.

⁸ *Id.*

⁹ *Id.*

¹⁰ Joyce Pellino Crane, *Office Romances Can Be Risky Business*, BOSTON SUNDAY GLOBE, Feb. 15, 2004, at G4.

“When it does, it can cost the employer in terms of both productivity and morale, say specialists. Those who flirt on line during the day spend an average of 42 minutes doing so, according to a survey last month at love.com.”¹¹

A further problem is lower morale, according to the author, who states:

“[A] 2001 study by the Society for Human Resource Management and Career Journal.com found 44% of 558 HR managers surveyed were concerned that coworkers of office lovebirds suffered lower morale as a result of the relationship.”¹²

A second article dealing with the issue of office romances reviews the all-too-frequent problem in which an employee complains that a romantic relationship between a supervisor and a direct subordinate has caused problems in terms of promotions, performance reviews, and layoffs.¹³ The author continues,

“Because the manager is in the position of power and in a relationship with a subordinate, this throws things off balance and can result in feelings of unfairness, real or perceived, among the staff.”¹⁴

While this author is accurate in her assertion, the manager/subordinate relationship not only causes lowered productivity and morale combined with a sense of perceived or real unfairness among subordinates; it also exposes the organization to financial liability

Still another article, this one dealing more sympathetically with the issue of office romances, states:

“A new British study of office relationships concludes that far from damaging work life, inter [intra?] office relationships can enhance business. In their book ‘Intimacy,’ Andrew and Nada Kakabadse, business school professors, acknowledged that although office affairs may lead to personal difficulties for the individuals concerned, they will happen anyway. So rather than treating every burgeoning sexual encounter as a potential harassment case, they believe managers should loosen up, recognize the positives and accept that emotional intimacy and sex are part of modern professional life.”¹⁵

All of these discussions clearly demonstrate that the problems associated with office romances have become more complex for management,

¹¹ *Id.*

¹² *Id.*

¹³ Andrea Wolf, *Office Romance Interfering With Work Environment*, BOSTON SUNDAY GLOBE, Apr. 18, 2004, at G10.

¹⁴ *Id.*

¹⁵ *Office Affairs Aren't Always Negative*, BOSTON HERALD, Nov. 11, 2004, at 39.

particularly with the changes that have taken place in the composition of the workforce and the attitudes of some contemporary authors regarding the subject.

It is important to state that not even law firms are immune from claims of sexual harassment. A perfect example of this proposition is the \$7 million jury award against Baker & McKenzie, the largest law firm in the world, in a lawsuit brought by an aggrieved employee against a partner and the law firm.¹⁶ In that case, the employee, Rena Weeks, alleged that a senior partner, Martin Greenstein, sexually harassed her by verbal and physical abuse. The employee had worked for the partner only fifteen days, ten days of which the partner had been out of the office on business. The allegations included the partner's dropping an M&M candy into the pocket of the employee's blouse and then asking her which of her breasts was bigger. There were additional occasions where the partner allegedly used degrading language which was not sexual in nature. A jury found that Greenstein had harassed Mrs. Weeks and that the law firm had failed to take reasonable steps to prevent the harassment. The jury awarded Mrs. Weeks \$50,000.00 in compensatory damages and \$7.1 million in punitive damages, of which the law firm was to pay \$6.9 million. The case once again demonstrates that juries can be unsympathetic when employees' human and legal rights have been violated by an employer who is not responsive to employees' harassment complaints. This case also stands for the proposition that employers must take prompt action in the investigation and resolution of these harassment incidents in order to avoid employee claims and potentially large damage awards.

During the years since the Supreme Court articulated the standards for judging allegations of workplace sexual harassment,¹⁷ employers have encountered increasingly complex challenges. A noteworthy example occurred in the United States District Court for the District of Maine¹⁸ where, in June 2001, a jury returned a verdict of \$215,000.00 compensatory damages for the plaintiff, Eileen Crowley, on her claim against the merchandising giant L.L. Bean, Inc. The plaintiff contended that L.L. Bean had failed to take reasonable measures to eliminate the unwelcome and increasingly intimidating attentions of a coworker. The harassing conduct, which included relentless stalking, occurred both on

¹⁶ Weeks v. Baker & McKenzie, 63 Cal. App. 4th 1128 (1998).

¹⁷ Oncale v. Sundowner Offshore Servs., Inc., 523 U.S. 75 (1998); Burlington Indus., Inc. v. Ellerth, 524 U.S. 742 (1998); Faragher v. Boca Raton, 524 U.S. 775 (1998).

¹⁸ Eileen Crowley v. L.L. Bean, Inc., Civil No. 00-183-P-C (D. Me. 2001), *aff'd*, 303 F.3d 387 (1st Cir. 2002). For post-appeal proceedings relating to attorneys' fees, *see* 361 F.3d 22 (2004). The district court's memorandum of decision and order denying the defendant's motion for summary judgment are reported at 143 F. Supp. 2d 38 (D. Me. 2001) (Carter, J.).

and off the company's premises. After the trial, a company spokesman conceded that the retailer has made several changes to its sexual harassment policy since Crowley's lawsuit.¹⁹ The case demonstrates once again that an employer is required to take all reasonable measures to protect its employees from sexual harassment. On the other hand, every employer also must pay due attention to the danger of liability for defamation or wrongful termination of an employee who is unfairly accused of sexual harassment.²⁰

The remainder of this article will treat developments in federal decisional law in the First Circuit (comprising the States of Massachusetts, Rhode Island, New Hampshire, and Maine and the Commonwealth of Puerto Rico) since the Supreme Court's announcement of the *Oncale-Ellerth-Faragher* trilogy. It will identify potential growth points in this area of jurisprudence, with special emphasis on the practical steps that a careful employer should consider in order to avoid litigation. The authors' primary focus will be upon published opinions of the First Circuit Court of Appeals and the district courts within the First Circuit.²¹

II. THE LEGAL FRAMEWORK

The statutory origin of federal liability for sexual harassment in the workplace is Title VII of the Civil Rights Act of 1964.²² Common law principles of agency also inform a federal court's judgment, particularly where a claim involves an employer's vicarious liability for sexual harassment by one of its supervisors.²³ Furthermore, the law of sexual harassment has developed under the influence of interpretive guidelines issued by the United States Equal Employment Opportunity

¹⁹ BOSTON GLOBE, Jun. 15, 2001, at B-2 (noting L.L. Bean loses harassment lawsuit).

²⁰ See David P. Twomey, *Sexual Harassment Law After Oncale, Ellerth, Faragher, and Kolstad. What's an Employer to Do?*, 33 BUS. L. REV. 149, 162 (2000).

²¹ Only published opinions constitute precedent. See First Circuit Local Rule 36 (permitting citation of unpublished opinions only in related cases). The local rule states, "In general it is desirable that opinions be published and thus be available for citation. This policy may be overcome in some situations where an opinion does not articulate a new rule of law, modify an established rule, apply an established rule to novel facts, or serve otherwise as a significant guide to future litigants." Local Rule 36.2. Any party may "apply for cause shown to the court for publication of an unpublished opinion." Local Rule 36.2 (b) (4).

²² Civil Rights Act of 1964, §§ 701 et seq., 42 U.S.C. §§ 2000e et seq., esp. § 2000e-2(a)(1) ("discriminat[ion] . . . because of . . . sex").

²³ *Burlington Indus., Inc. v. Ellerth*, 524 U.S. 742, 754 (1998) (recognizing the Restatement 2d of Agency (1957) as a useful beginning point for discussion, but acknowledging that "common-law principles may not be transferable in all their particulars to Title VII").

Commission in 1980.²⁴ An understanding of the guidelines, which retain persuasive force nearly a quarter-century after promulgation, will assist an employer or practitioner in dealing with issues of sexual harassment. The definition of sexual harassment, as appearing in the 1980 guidelines, is instructive:

“Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when (1) submission to such conduct is made either explicitly or implicitly a term or condition of an individual’s employment, (2) submission to or rejection of such conduct by an individual is used as a basis for employment decisions affecting such individual, or (3) such conduct has the purpose or effect of unreasonably interfering with an individual’s work performance or creating an intimidating, hostile, or offensive working environment.”

The passage just quoted identifies the two varieties of sexual harassment expounded in later Supreme Court decisions²⁵ and still recognized today. The first variety is “tangible employment action” sexual harassment. It arises in situations where an employing entity or its agent (supervisor) has taken significant adverse action—e.g., dismissal, demotion, or an undesirable reassignment—against a subordinate because of his or her refusal to submit to the supervisor’s demand for sexual favors. Earlier writers referred to this situation as “quid pro quo” sexual harassment.²⁶

The second variety of sexual harassment described in the EEOC guidelines and treated extensively in the 1998 Supreme Court decisions is “hostile work environment” harassment. Such harassment was the subject of the lawsuit against L.L. Bean, Inc., referred to above.²⁷ Even though an employer has taken no tangible adverse employment action whatever against the alleged victim, it may nevertheless be liable for damages resulting from severe and pervasive conduct by a supervisor or

²⁴ Guidelines on Discrimination on the Basis of Sex. Equal Employment Opportunity Commission, Nov. 10, 1980, 29 C.F.R. § 1604.11 (a) (3) (1993). The guidelines do not have the force of regulations. While they “constitute a body of experience and informed judgment to which courts and litigants may properly resort for guidance, they are *not* controlling.” *Williams v. Astra, Inc.*, 68 F. Supp. 2d 29 (D. Mass. 1999) (citation omitted; emphasis in original). See *National RR. Passenger Corp. v. Morgan*, 536 U.S. 101, 106 n. 6 (2002).

²⁵ See *Meritor Sav. Bank v. Vinson*, 477 U.S. 57 (1986).

²⁶ See Employer Guidance: Vicarious Employer Liability for Unlawful Harassment by Supervisors, Equal Employment Opportunity Commission, Jun. 18, 1999, n. 7 (adopting “tangible employment action” as the more useful term).

²⁷ See *Crowley*, 143 F. Supp. 2d at 55-58.

by fellow employees, or even nonemployees,²⁸ when such conduct has the effect of creating a hostile work environment.²⁹ An employer may raise an affirmative defense to a claim of hostile work environment sexual harassment by alleging (a) that it took reasonable care to prevent sexual harassment and to address it promptly when it occurred and (b) that the plaintiff employee unreasonably failed to take advantage of the procedures that the employer provided.³⁰

District courts in the First Circuit disagree on the question whether a supervisor or fellow employee may be individually liable on a sexual harassment claim under Title VII.³¹ As of this writing, no case reaching the court of appeals has presented this issue for review. Interlocutory certification of the question of individual liability by a district court

²⁸ The law of the First Circuit would hold an employer liable for sexually harassing nonemployee conduct if it had knowledge of the offensive acts and did not promptly take corrective action. See *Rodriguez-Hernandez v. Miranda-Velez*, 132 F.3d 848, 854-855 (1st Cir. 1998); *Acevedo-Vargas v. Colon*, 68 F. Supp. 2d 80, 88 (D.P.R. 1999). Compare EEOC guidelines, 29 C.F.R. § 1604.11 (e) (knew or should have known of conduct of nonemployees).

²⁹ The First Circuit has declined to hold that a “one-time episode is per se incapable of sustaining a hostile environment claim.” *Brown v. Hot, Sexy, & Safer Prods., Inc.*, 68 F.3d 525, 541 n. 13 (1st Cir. 1995) (providing Title VII analysis in context of a Title IX claim), *cert. denied*, 516 U.S. 1159 (1996). See *Hernandez-Loring v. Universidad Metropolitana*, 233 F.3d 49, 55-56 (1st Cir. 2000) (hostile environment claim shown by evidence of two incidents of sexual harassment in the context of an ongoing pattern of conduct).

³⁰ See *Ellerth*, 524 U.S. at 765; *Faragher*, 524 U.S. at 807-08. One district court opinion has stated that shame or embarrassment does not excuse an employee’s failure to take advantage of such procedures. That court suggested, however, that an adequate procedure for handling complaints of sexual harassment should include a stated policy of confidentiality. *Landrau-Romero v. Caribbean Restaurants, Inc.*, 14 F. Supp. 2d 185, 190-92 (D.P.R. 1998). See Peter Aronson, *Silent Suffering Kills Sexual Harassment Cases*, NAT. L.J., Jul. 2, 2001.

³¹ Compare *Horney v. Westfield Gage Co.*, 95 F. Supp. 2d 29, 32-36 (D. Mass. 2000) (no individual supervisory liability under Title VII), with *Wyss v. General Dynamics Corp.*, 24 F. Supp. 2d 202, 204-208 (D.R.I. 1998) (supervisors on two levels were individually liable). The District of New Hampshire does not recognize individual liability under Title VII. *Preyer v. Dartmouth Coll.*, 968 F. Supp. 20, 25 (D.N.H. 1997). *Jennifer Elmasry v. Bill Veith & another*, 2000 WL 1466104 (D.N.H., Jan. 7, 2000) n. 1 (unpublished opinion). The Massachusetts Appeals Court appears to have adopted the more inclusive interpretation in its treatment of state-law claims of sexual harassment arising under G.L. c. 151B. See *Beaupre v. Clift Smith & Assoc.*, 50 Mass. App. Ct. 480, 490-491 (2000) (president of a closely held corporation could be individually liable for sexual harassment allegedly perpetrated by him). For a discussion of Massachusetts state-law remedies, see Bruce W. Warren, *What Do the President of the United States, a Justice of the United States Supreme Court, and the Sergeant Major of the United States Army Have in Common?*, 31 BUS. L. REV. 157, 163-65 (1999). See also *Cuddy v. Stop & Shop Supermarket Co.*, 434 Mass. 521, 536-39 (2001) (stating that Supreme Judicial Court, in construing G.L. c. 151B, frequently does not follow the reasoning of federal appellate decisions applying Title VII).

acting under 28 U.S.C. § 1272 (b) appears unlikely. In earlier First Circuit cases, the court of appeals has stated that the certification process “should be used sparingly and only in exceptional circumstances,”³² and has implied that a disagreement between district court judges within the circuit does not present such a circumstance.³³

III. THE SUPREME COURT’S 1998 DECISIONS

By its decision in *Oncale v. Sundowner Offshore Servs., Inc.*,³⁴ issued in March, 1998, the Supreme Court explicitly extended the protections of Title VII to victims of same-sex sexual harassment.³⁵ The male plaintiff, who had been employed aboard an off-shore oil drilling platform, brought sexual harassment claims against his former employer, a male supervisor, and two male coworkers. Oncale alleged that the individual defendants had “picked on him all the time” and called him a name suggesting homosexuality. At his deposition, he testified, “I felt if I didn’t leave my job that I would be raped or forced to have sex.”³⁶

Justice Scalia, writing for the Court, was at pains to emphasize that, by imposing employer liability; the Court did not intend to “transform Title VII into a general civility code for the American workplace.”³⁷ The Court first narrowed the issues, reasoning that workplace harassment, even harassment between male and female employees, does not automatically entitle a plaintiff to invoke Title VII protections. “The critical issue is whether members of one sex are exposed to disadvantageous terms or conditions of employment to which members of the other sex are not exposed.”³⁸ By this test, harassing conduct need not be motivated by sexual desire to be actionable under Title VII. The Court cited the hypothetical case of a female employee subjected to gender-specific harassment by a female coworker motivated by hostility to the presence of women in the workplace.³⁹ Second, the Court limited the prohibition of sexual harassment to “behavior so objectively offensive as to alter the

³² *McGillicuddy v. Clements*, 746 F.2d 76, 76 n.1 (1st Cir. 1984).

³³ *Palandjian v. Pahlavi*, 782 F.2d 313, 314 (1st Cir. 1986).

³⁴ 523 U.S. 75 (1998).

³⁵ The Court had laid the groundwork for its holding several years earlier in *Harris v. Forklift Systems, Inc.*, 510 U.S. 17 (1993): “When the workplace is permeated with discriminatory intimidation, ridicule, and insult that is sufficiently severe or pervasive to alter the conditions of the victim’s employment and create an abusive working environment, Title VII is violated.” *Id.*, at 21.

³⁶ *Oncale*, 523 U.S. at 78.

³⁷ *Id.* at 81.

³⁸ *Id.* at 80.

³⁹ *Id.*, quoting *Harris*, *supra* note 35, at 25. See *White v. New Hampshire Dep’t of Corrections*, 221 F.3d 254, 260-61 (1st Cir. 2000) (evidence of sexual remarks, innuendoes, ridicule, and intimidation sufficient to support a claim of hostile work environment).

‘conditions’ of the victim’s employment.”⁴⁰ A court or jury should judge the objective severity of harassment from the perspective of a reasonable person in the plaintiff’s position, applying “common sense, and an appropriate sensitivity to social context.”⁴¹

In both *Faragher v. Boca Raton*⁴² and *Burlington Indus., Inc. v. Ellerth*⁴³, the Supreme Court again confronted the “hostile work environment” variety of sexual harassment. Each involved female plaintiffs who alleged that they had been subjected to repeated boorish and offensive remarks by supervisors and, in one instance, to uninvited and offensive touching. The plaintiffs also alleged unfulfilled threats affecting their employment status. In these cases, the Court recognized that one purpose of Title VII is to encourage conciliation and preventive action by fostering the use of anti-harassment policies and grievance procedures. The Court held:

“When no tangible employment action is taken, a defending employer may raise an affirmative defense to liability or damages, subject to proof by a preponderance of the evidence The defense comprises two necessary elements: (a) that the employer exercised reasonable care to prevent and correct promptly any sexually harassing behavior, and (b) that the plaintiff employee unreasonably failed to take advantage of any preventive or corrective opportunities provided by the employer or to avoid harm otherwise. While proof that an employer had promulgated an antiharassment policy with complaint procedure is not necessary in every instance as a matter of law, the need for a stated policy suitable to the employment circumstances may appropriately be addressed in any case when litigating the first element of the defense. And while proof that an employee failed to fulfill the corresponding obligation of reasonable care to avoid harm, is not limited to showing an unreasonable failure to use any complaint procedure provided by the employer, a demonstration of such failure

⁴⁰ *Oncale*, 523 U.S. at 81.

⁴¹ Juries should distinguish prohibited conduct from “simple teasing or roughhousing.” Thus, “[a] professional football player’s working environment is not severely or pervasively abusive, for example, if the coach smacks him on the buttocks as he heads onto the field – even if the same behavior would reasonably be experienced as abusive by the coach’s secretary (male or female) back at the office.” 523 U.S. at 82. However, in *O’Rourke v. Providence*, 235 F.3d 713, 735 (1st Cir. 2001), the court firmly rejected the defendant city’s argument that the jury should have been instructed to evaluate the conduct of its firefighters toward the plaintiff in the context of a “blue collar environment where crude language is commonly used.” Compare *Gross v. Burggraf Constr. Co.*, 53 F.3d 1531, 1538 (10th Cir. 1995). The court said, “We do not believe that a woman who chooses to work in the male-dominated trades relinquishes her right to be free from sexual harassment Surely women working in the trades do not deserve less protection from the law that women working in a courthouse.” *Id.*, quoting *Williams v. General Motors Corp.*, 187 F.3d 553, 564 (6th Cir. 1999).

⁴² 524 U.S. 775 (1998).

⁴³ 524 U.S. 742 (1998).

will normally suffice to satisfy the employer's burden under the second element of the defense. No affirmative defense is available, however, when the supervisor's harassment culminates in a tangible employment action. . . ."⁴⁴

IV. CURRENT LEGAL ISSUES

A. *Exhaustion of remedies—administrative complaint*

Claimants under Title VII must fulfill an exhaustion-of-remedies requirement, combined with two separate and very short statutes of limitations. These procedural hurdles were erected with the evident view of fostering the congressional intent that Title VII disputes should be resolved by conciliation wherever possible and that employers should receive prompt notice in order to speed remedial action. An aggrieved person must initiate the complaint process by making an administrative filing with the Equal Employment Opportunity Commission or the appropriate state agency within a short time period (180 or 300 days) after the occurrence of the incident of which he or she complains.⁴⁵ An even shorter period—ninety days—is allowed for commencement of suit following the EEOC's dismissal of the administrative complaint or its issuance of a notice of right to sue ("right-to-sue letter").⁴⁶

An important question not yet fully answered by judicial treatment of this procedural scheme is the extent to which a plaintiff's administrative complaint determines the contours of the subsequent litigation. This is, in fact, a matter on which the decisions in federal circuits have disagreed. Deciding *Johnson v. General Elec. Co.*⁴⁷ in 1988, the First Circuit took the position that a plaintiff's lawsuit is limited to claims

⁴⁴ *Faragher*, 524 U.S. at 807-08 (Souter, J.). In *Pennsylvania State Police v. Suders*, 542 U.S. 129 (2004), the Supreme Court recognized that Title VII encompasses liability for constructive discharge resulting from a severe or pervasive atmosphere of sexual harassment or hostility. The Court stated that when no official act underlies the constructive discharge, the employer must be afforded the opportunity to establish, through the *Ellerth/Faragher* affirmative defense, that it should not be held vicariously liable. For an informative discussion of the factual showing required for a plaintiff to present a jury question as to whether the employer is entitled to the affirmative defense, see *Reed v. MBNA Mgt. Syss., Inc.*, 333 F.3d 27 (1st Cir. 2003).

⁴⁵ 42 U.S.C. § 2000e-5 (e) (1). The 300-day limitations period applies in states having an antidiscrimination agency with jurisdiction over the subject matter of the complaint (so-called "deferral" states). In states not having such an agency, the period is 180 days. See *Crowley*, 143 F. Supp. 2d at 51-52 & n. 19 (start of limitations period affected by work-sharing agreement between EEOC and state agency). The requirement of exhaustion of remedies is not a jurisdictional issue, but one that may be waived. *O'Rourke v. Providence*, 235 F.3d 713, 725 n.3 (1st Cir. 2001).

⁴⁶ 42 U.S.C. § 2000e-5 (f). See *Zipes v. Trans World Airlines*, 455 U.S. 385, 393-395 & n. 12 (1982).

⁴⁷ 840 F.2d 132, 139 (1st Cir. 1988).

that “must reasonably have been within the scope of the EEOC’s investigation.” Thus, in that case, a claim that the defendant employer had retaliated against the plaintiff for filing an administrative charge was held to be barred because she had never informed the EEOC of the alleged retaliation.

Subsequent decisions foreshadow a more liberal approach, and suggest that employers should no longer rely upon the continued vitality of the *Johnson* principle. In *White v. New Hampshire Dep’t of Corrections*,⁴⁸ the court of appeals held that the district court did not abuse its discretion in denying the defendant’s motion to limit the evidence at trial to that which was explicitly stated in the administrative complaint. The appellate court commented that the object of the administrative complaint was to “describe the essential nature of the charge and lead to a reasonable investigation thereof,”⁴⁹ rather than to be a blueprint for litigation.

The First Circuit revisited this question in March of 2001 in the case of *Clockedile v. New Hampshire Dep’t of Corrections*.⁵⁰ There a jury had returned a verdict in favor of the plaintiff on her claim of employer retaliation, but had rejected her underlying claim of sexual harassment.⁵¹ The district court judge, considering himself constrained by the *Johnson* holding, set aside the award of damages on the ground the plaintiff had not alleged the retaliatory acts in her administrative complaint. On appeal, the First Circuit Court of Appeals announced a new rule applicable to claims of retaliation, namely, that such claims “are preserved so long as the retaliation is reasonably related to and grows out of the discrimination complained of to the agency.”⁵² The court emphasized that it took no position on the proper rule for litigating non-retaliation claims,⁵³ reserving this question for its attention in future cases.

⁴⁸ 221 F.3d 254 (1st Cir. 2000).

⁴⁹ *Id.*, at 263.

⁵⁰ 245 F.3d 1 (1st Cir. 2001).

⁵¹ In *White*, the circuit court did not require the plaintiff to show that her sexual harassment claim had merit in order to establish a prima facie claim of retaliation. 221 F. 3d at 262. Earlier cases held that, for a retaliation claim to succeed, a plaintiff merely must show that he or she “reasonably believed” that the conduct complained of violated Title VII. *Wyatt v. Boston*, 35 F.3d 13, 15 (1st Cir. 1994); *Rodriguez-Hernandez v. Miranda-Velez*, 132 F.3d 848 (1st Cir. 1998).

⁵² 245 F.3d at 6. The filing of a sexual harassment complaint is, of course, an activity protected by Title VII. *Wyatt v. Boston*, 35 F.3d 13, 16 (1st Cir. 1994). Compare *Marrero v. Goya of P.R., Inc.*, 304 F.3d 7, 22-27 (1st Cir. 2002) (alleged adverse personnel action not rising to the level of retaliation).

⁵³ The decision was influenced by the EEOC’s brief as *amicus curiae*, which revealed that the *Johnson* panel had been incorrect in its assumption about the scope of the agency’s investigations. 245 F.3d at 5.

B. Sexual orientation

In the 1999 case of *Higgins v. New Balance Athletic Shoe, Inc.*,⁵⁴ the First Circuit Court of Appeals affirmed summary judgment for the employer, where the plaintiff employee, a homosexual male, had shown only that he was harassed because of his sexual orientation, and not because of his sex. Quoting the Supreme Court's opinion in *Oncale*, the First Circuit panel observed that, in same-sex harassment cases, the "plaintiff must always prove that the conduct at issue was not merely tinged with offensive sexual connotations, but in fact constituted discrimination 'because of . . . sex.'"⁵⁵ The court of appeals agreed with the district court that Title VII, "as glossed by the Supreme Court," does not provide a remedy to persons who have suffered "harassment motivated solely by animus directed toward the plaintiff's sexual orientation."⁵⁶

It is noteworthy, however, that the plaintiff on his appeal urged two somewhat more imaginative theories of recovery which the court held were procedurally foreclosed by reason of his failure to develop them on the summary judgment record in the district court. The first was that the plaintiff should be entitled to a trial on the issue whether the alleged harassment was visited on men, and solely on men, who possessed certain characteristics.⁵⁷ The second was that he should be entitled to recover under Title VII if he could prove that the harassment had occurred because he failed to meet his coworkers' stereotyped standards of masculinity.⁵⁸

The plaintiff's arguments in *Higgins* foreshadowed the result reached by the district court in *Centola v. Potter*,⁵⁹ where, in denying the employer's motion for summary judgment, the district court stated unequivocally,

"[T]he rule is: If an employer acts upon stereotypes about sexual roles in making employment decisions, or allows the use of these stereotypes

⁵⁴ 194 F.3d 252 (1st Cir. 1999).

⁵⁵ 194 F.3d at 259.

⁵⁶ 194 F.3d at 259. See 21 F. Supp. 2d 66, 73-76 (D. Me. 1998).

⁵⁷ See *Phillips v. Martin Marietta Corp.*, 400 U.S. 542, 544 (1971). Compare *Muzzy v. Cahillane Motors, Inc.*, 434 Mass. 409 (2001) (lesbian employee victim of harassment by lesbian supervisor; State-law claim).

⁵⁸ See *Price Waterhouse v. Hopkins*, 490 U.S. 226 (1989); Randall J. Peck, *Rising Incidence of Men Suing Men for Workplace Sex Bias*, N.J.L.J., Jun. 21, 2001 (emphasizing that employers should take care not to engage in gender stereotyping). Compare *Provencher v. CVS Pharmacy Division of Melville Corp.*, 145 F.3d 5 (1st Cir. 1998) (alleged harassment of homosexual male employee by female supervisor; decision, however, rested on statute of limitations grounds).

⁵⁹ 183 F. Supp. 2d 403 (D. Mass. 2002).

in the creation of a hostile or abusive work environment, then the employer opens itself up to liability under Title VII's prohibition of discrimination on the basis of sex.⁶⁰

Centola had alleged that, while he was employed as a letter carrier, coworkers continuously tormented him by comments "mocking his masculinity, portraying him as effeminate, and implying that he was a homosexual."⁶¹ He claimed not only that he was discriminated against because of his sexual orientation, but also because of his sex. The court acknowledged that such "mixed motive" sexual harassment is actionable under Title VII, noting that "[s]exual orientation harassment is often, if not always, motivated by a desire to enforce heterosexually defined gender norms," e.g., "real men don't date men."⁶² Centola had provided sufficient evidence that he was harassed and retaliated against because of his sex and his failure to conform to his coworkers' gender stereotypes.

C. Statute of limitations

Federal courts in the First Circuit and elsewhere have attempted to harmonize the short statute of limitations (180 or 300 days⁶³) with the substantive law of "hostile work environment" sexual harassment.⁶⁴ The First Circuit acknowledged that the statute of limitations question "overlaps with the substantive law" because a successful claim of "hostile work environment" sexual harassment normally depends upon proof of a cumulative process, rather than a one-time event.⁶⁵ A plaintiff's contention may involve acts that amount to unlawful discrimination only when repeated or intensified, or conduct that is not immediately recognizable as sex discrimination. If her claim is based on an employer's failure to remedy objectionable conduct, that conduct must have continued long enough for the employer to be charged with knowledge.

To mitigate potential problems caused by the short statute of limitations, the law in the First Circuit recognized the continuing violation doctrine as an "equitable exception" to the 300-day (or 180-day) limitations period, applicable when the unlawful behavior is deemed ongoing.⁶⁶ The doctrine permits a plaintiff to rely on acts that would

⁶⁰ *Id.*, at 409.

⁶¹ *Id.*, at 406.

⁶² *Id.*, at 410.

⁶³ See *supra* Part IV.A.

⁶⁴ *National RR. Passenger Corp. v. Morgan*, 536 U.S. 101 (2002). See *Provencher, supra*, and *O'Rourke v. Providence*, 235 F.3d 713 (1st Cir. 2001).

⁶⁵ *O'Rourke*, 235 F.3d at 733.

⁶⁶ In *O'Rourke*, the plaintiff also contended that, even if the continuing violation doctrine did not apply, evidence of the time-barred acts should be admissible as relevant and probative on the question whether the later acts of discrimination took place. *Id.* at

otherwise be time-barred and to recover damages, including back pay, based on such acts. Under the analysis employed until recently, continuing violations were broken down into the categories of “serial” and “systemic,” according to the characteristics described below.⁶⁷

Acts directed against only a particular individual, and not traceable to a discriminatory policy or practice, were considered under the decisional law relating to serial violations. Such acts which would otherwise be barred by the 300-day (or 180-day) limitations period were permitted to form the basis of a claim if they met certain requirements.⁶⁸ “A serial violation occurs where a chain of similar discriminatory acts emanating from the same discriminatory animus exists and where there has been some violation within the statute of limitations period that ‘anchors’ the earlier claims.”⁶⁹ A continuing violation claim will fail if a plaintiff was aware—or should have been aware—that he was being discriminated against at the time of the acts barred by the statute of limitations. For example, the plaintiff in *Provencher* admitted that he knew he was being harassed long before he brought his administrative complaint. In denying his claim of serial violation, the court distinguished his case from the situation that the continuing violation doctrine is intended to protect: that of a plaintiff unable to appreciate that he is being discriminated against until a series of acts have taken place.

By contrast, the systemic violation analysis had its origin in an employer’s discriminatory policy or practice. When a plaintiff’s claim is based upon a systemic violation, the test for statute of limitations purposes is whether the policy or practice complained of continued into the limitations period. No identifiable act of discrimination need have occurred within that period. Prior to *Crowley*, courts considered systemic violations primarily in the context of policies and practices relating to such matters as hiring, promotion, training, or compensation.

726. In view of its holding that the plaintiff had established the applicability of the continuing violation doctrine, the court did not have to reach this issue. In *Crowley*, however, the district court would have admitted evidence of discriminatory incidents which, “even if time-barred, would clearly be relevant to demonstrate important context for the later allegedly discriminatory behavior of [her abusive coworker].” 143 F. Supp. 2d at 55 n. 20.

⁶⁷ See *Provencher*, 145 F.3d at 14-15. Compare *O’Rourke*, *supra*.

⁶⁸ The existence of a serial violation was a question of fact for the jury. *O’Rourke*, 235 F.3d at 731.

⁶⁹ *Provencher* at 14. To be an “anchor” event, the violation occurring within the limitations period must be part of a pattern of actionable sexual harassment. The plaintiff in *Provencher* sought to rely on “neutral” events, too remote in time and character to be viewed as repetitive of the acts barred by the statute of limitations. Similarly, a claim of over-all reduced pay was merely an effect of past discrimination, not a new discriminatory act. 145 F.3d at 15.

The district court in *Crowley* adopted a substantially more inclusive view of the systemic violation concept. In denying L.L. Bean's motion for summary judgment, the court held that genuine issues of material fact existed as to "whether L.L. Bean permitted [the stalker's] allegedly harassing conduct to continue unremedied for so long as to amount to a discriminatory policy or practice on the part of L.L. Bean."⁷⁰ The plaintiff had argued in the summary judgment proceedings that a systemic violation consisted in (a) L.L. Bean's restrictive view limiting sexual harassment to "conduct of an overtly sexual nature, as opposed to conduct directed at a victim because of her sex" and (b) "setting an erroneously high threshold for what an employee must say in order for the L.L. Bean leadership to recognize and investigate sexual harassment."⁷¹ For its part, the defendant argued that, to be recognized as a systemic violation an employer's policy itself must cause the discrimination, or, in other words, that actionable discrimination could not result from an inadequate sexual harassment policy, uniformly applied. By adopting the plaintiff's position, the district court suggested that the concept of systemic violation would have heightened significance in future cases.

The First Circuit was never required to rule on the correctness of the Maine District Court's expansive view of systemic violations. The Supreme Court fundamentally altered the landscape of statute of limitations analysis by its decision in *National RR. Passenger Corp. v. Morgan*,⁷² issued while the *Crowley* appeal was pending. Under the régime of *Morgan*, it is no longer necessary for a jury to determine whether a violation is serial or systemic when considering the timeliness of a hostile work environment claim. The Court, speaking through Justice Thomas, reasoned that "a hostile work environment claim is comprised of a series of acts that collectively constitute one 'unlawful employment practice.'" Therefore, the Court held, "[C]onsideration of the entire scope of a hostile work environment claim, including behavior alleged outside the statutory time period, is permissible for the purpose of assessing liability, so long as an act contributing to that hostile environment takes place within the statutory time period."⁷³ In *Crowley*, the First Circuit recognized that "Morgan supplants our jurisprudence on the continuing violation doctrine in hostile work environment claims, making it no longer necessary to distinguish between

⁷⁰ 143 F. Supp. 2d at 54.

⁷¹ *Id.*

⁷² 536 U.S. 101 (2002).

⁷³ *Id.* at 105. The Court emphasized, however, that an employer may still raise a defense of laches if the plaintiff unreasonably delays in filing the EEOC charge and, as a result, the employer is significantly handicapped in making a defense. *Id.* at 121-22.

systemic and serial violations.”⁷⁴ Thus, the standard adopted in *Morgan* would have permitted Eileen Crowley to base her claim on the entire chain of relevant events, including all of the conduct of the alleged stalker and L.L. Bean’s reaction to it, and made affirmance inevitable.

D. Proof of hostile work environment

The inquiry whether alleged “hostile work environment” sexual harassment is actionable under Title VII is fact-specific. A court considers the totality of the circumstances, including the “frequency of the discriminatory conduct; its severity; whether it is physically threatening or humiliating, or merely offensive; and whether it unreasonably interferes with an employee’s work performance.”⁷⁵ An employer cannot defeat a plaintiff’s claim merely by showing that the plaintiff participated in some workplace conduct that was sexual in nature.⁷⁶ Significantly, the existence of a hostile work environment does not depend solely upon the pervasive effects of sexually harassing conduct. Once a plaintiff has endured overt sexual harassment, other harassing conduct which undermines the plaintiff’s ability to succeed at her job is also to be considered in assessing a “hostile work environment” claim. Such non-sexually harassing conduct, for example, shunning, exclusion, sabotage, denial of support, and humiliation, all can contribute to a hostile work environment.⁷⁷

⁷⁴ 303 F.3d at 406. See *Marrero v. Goya of P.R., Inc.*, 304 F.3d 7 (1st Cir. 2002), an opinion issued three weeks before *Crowley*, although preceding *Crowley* in the Federal Reporter. The *Marrero* panel noted that *Morgan* had “explicitly rejected the view . . . that the plaintiff may not base a suit on individual acts that occurred outside the statute of limitations [period] unless it would have been unreasonable to expect the plaintiff to sue before the statute ran on such conduct.”

⁷⁵ *Harris v. Forklift Systems, Inc.*, 510 U.S. 17, 23 (1993). In *Crowley*, the court of appeals, although noting that the issue was not preserved for review, was of opinion that evidence of the alleged stalker’s non-workplace conduct could be admitted “to help [the jury] determine the severity and pervasiveness of the hostility in the workplace as well as to establish that the conduct was motivated by gender.” 303 F.3d at 409.

⁷⁶ In *Horney v. Westfield Gage Co.*, 211 F. Supp. 2d 291, 309 (D. Mass. 2002) (posttrial motions), the court emphasized that “[t]he mere fact that the plaintiff participates in some workplace conduct that is sexual does not, by itself, prove that the conduct is welcome and that she does not perceive her environment to be hostile. Nor does it suggest that she enjoyed or appeared to enjoy the campaign of harassment against her.” (internal quotation marks and citations omitted). See *Carr v. Allison Gas Turbine Div., General Motors Corp.*, 32 F.3d 1007, 1011 (7th Cir. 1994) (sexually explicit words of female shop worker cannot be used to justify similar conduct by men and excuse their employer).

⁷⁷ *O’Rourke v. Providence*, 235 F.3d 713, 730 (1st Cir. 2001). *Brissette v. Franklin Co. Sheriff’s Office*, 235 F. Supp. 2d 63, 85 (D. Mass. 2003).

A court's initial inquiry typically occurs in summary judgment proceedings.⁷⁸ For example, a district court judge in New Hampshire recently held that an employee raised genuine issues of material fact as to whether she had been subjected to a hostile work environment where the summary judgment record supported an inference that the conduct she complained of—sexually suggestive comments, undue favoritism, unwanted gifts, and improper touching—continuing over a four-month period, had caused her to have feelings of humiliation and resulted in her absences from work.⁷⁹ Another case withstood an employer's motion for summary judgment where the record showed that an unwelcome and offensive epithet ("Hormones") had been directed at the female plaintiff five or six times every working day.⁸⁰ However, "winks and smiles" directed by a male supervisor to a male Burger King restaurant employee over a seven-week period did not support a Title VII claim.⁸¹ In the *Crowley* case, the conduct of which the plaintiff complained included stalking, intimidation, offensive touching, and invasion of her home. This conduct resulted in hindrance to the plaintiff in performing her job and culminated in her hospitalization for a stress-related illness.⁸² The district court judge had no difficulty in concluding both that the plaintiff herself and that a reasonable person in the plaintiff's position would find the harassing conduct "sufficiently severe or pervasive to alter the conditions of her employment."⁸³

Although few decisions have considered the matter, it is clear that the objectionable conduct of nonemployees will give rise to a claim of hostile work environment. The cases suggest that, in the future, an employer will bear increasing responsibility for the conduct of customers, contractors, and other persons whom the employer permits on its premises. For example, an employer has been held liable for a customer's unwanted sexual advances where the employer was shown

⁷⁸ See Fed. R. Civ. P. 56.

⁷⁹ *Jennifer Elmasry vs. Bill Veith & another*, 2000 WL 1466104 (D.N.H., Jan. 7, 2000) (unpublished opinion).

⁸⁰ *Michele Wargo vs. Wal-Mart Stores, Inc.*, 2000 WL 1183093 (D. Me. Aug. 17, 2000) (unpublished opinion). See *Marrero v. Goya of P.R., Inc.*, 304 F.3d 7, 14-16 (1st Cir. 2002) (humiliating sexual remarks and innuendoes, inflicted on a daily basis; unwelcome physical touching).

⁸¹ *Landrau-Romero v. Caribbean Restaurants, Inc.*, 145 F. Supp. 2d 185 (D.P.R. 1998). See *Mullenix v. Forsyth Dental Infirmary for Children*, 965 F. Supp. 120, 151-56 (D. Mass. 1996) (complaints considered trivial); *Conto v. Concord Hosp., Inc.*, 2001 WL 1081606 (1st Cir. 2001) (offensive sexual utterances, not directed to plaintiff, did not create hostile work environment) (unpublished opinion).

⁸² *Crowley*, 143 F. Supp. 2d at 56-57.

⁸³ *Id.* at 67.

to have ratified or acquiesced in the customer's demands.⁸⁴ In *Rodriguez-Hernandez v. Miranda-Velez*,⁸⁵ decided by the First Circuit in 1998, the plaintiff alleged that she had been subjected to the unwanted sexual advances of her employer's most important customer. The employer had not only acquiesced in the customer's demands, but also told the plaintiff to comply with them. The appellate court concluded that the jury could properly have found sexual harassment on the theory of "hostile work environment," because it refused to take any remedial action with respect to the customer's unwanted advances, as well as on the theory of "tangible employment action," and also because it conditioned the plaintiff's future employment upon her complying with the customer's sexual demands.

Every employer thus has an affirmative duty both to prevent sexual harassment by employees and nonemployees alike and to deter future harassment.⁸⁶ The authorities discussed in this article emphasize the importance to an employer of having an anti-harassment program in place. Such a program should have an enforcement mechanism which, as a minimum (a) provides confidentiality to an employee making a report and (b) designates a responsible person outside regular supervisory chain to whom reports of sexual harassment may be made. An issue still unresolved, however, is the level of intensity with which an employer must bring its anti-harassment program to the attention of its employees and of other persons whom it allows on its premises. In one recent case, the plaintiff successfully argued that, in a manufacturing plant where the employees had limited education and little awareness of the harassment issue, mere distribution of the employer's handbook was not enough to establish the "anti-harassment program" prong of the employer's affirmative defense. The court observed that no one had ever specifically explained the anti-harassment policy to the plaintiff, or even told her to read the handbook, and that she had never received any additional training about sexual harassment or complaint procedures.⁸⁷

⁸⁴ *Folkerson v. Circus Circus Enters., Inc.*, 107 F.3d 754, 756 (9th Cir. 1997). See EEOC "Guidelines on Sex Discrimination" appearing in 29 C.F.R. § 1604.11 (e):

"An employer may also be responsible for the acts of non-employees, with respect to sexual harassment of employees in the workplace, where employer (or its agents or supervisory employees) knew or should have known of the conduct and fails to take immediate and appropriate corrective action. . . . In reviewing these cases the Commission will consider the extent of the employer's control and any other legal responsibility which the employer may have with respect to the conduct of such non-employees."

⁸⁵ 132 F.3d 848, 854-55 (1st Cir. 1998). See *Acevedo-Vargas v. Colon*, 68 F. Supp. 2d 80, 88 (D.P.R. 1999) (requiring employer knowledge of objectionable nonemployee conduct, combined with failure to take prompt corrective action).

⁸⁶ This duty does not end when the victim resigns or is fired. *Elmasry*, *supra* note 79.

⁸⁷ *Id.*

V. CONCLUSION

This article has identified numerous practical concerns on the subject of sexual harassment in the workplace, as expounded by the federal courts in the First Circuit. In general these courts offer a hospitable forum for plaintiffs wishing to litigate sexual harassment claims. Recent decisions demonstrate the importance to employers of following, from case to case, how the lower courts apply the *Oncale-Ellerth-Faragher* standards. In particular, the decisional law in the First Circuit is likely to develop significantly in regard to exhaustion of administrative remedies, protection against harassment based on sexual orientation, the continuing violation doctrine, and the threshold conditions cognizable as a hostile work environment. The trend is likely to be toward broadening the Title VII remedies available to employees. As workplaces become increasingly sophisticated, the incentive to litigate will increase.

Several factors that emanated from the cases discussed above are of significant legal assistance to employers in protecting their employees from sexual harassment and in defending sexual harassment complaints. The cases clearly indicate that if the employer, once being placed on notice, takes all reasonable and necessary steps to end the harassment and takes appropriate action against the harasser, the employer will have defenses in any subsequent legal proceeding based on the alleged harassing conduct. The bottom line is that the employer needs to take assertive and immediate action when placed on notice of sexually harassing conduct. It is imperative that the employer have a firm and enforced sexual harassment policy establishing that sexual harassment and retaliation for filing a sexual harassment complaint are forbidden. The policy should include examples of sexual harassment, state the potential consequences for violation, describe how to file internal complaints, and give contact addresses and telephone numbers of the designated employee or employees for receipt of complaints.⁸⁸ The contact person generally should be from the human resources area or else a senior member of management with training and experience in processing and investigating a sexual harassment complaint, and who is not the employee's supervisor. If a complaint is filed, this senior member of management or human resources individual should conduct a thorough and immediate investigation and make recommendations to senior management as to disposition of the case, including appropriate disciplinary and remedial actions. This process should be delineated in the organization's sexual harassment policies and procedures contained

⁸⁸ Massachusetts Commission Against Discrimination, *Sexual Harassment in the Workplace Guidelines*, October 2, 2002.

in the human resources manual. Employees should receive the human resources manual at orientation and should receive updates annually. The organization's sexual harassment policy should be promulgated in a manner similar to the organization's affirmative action policy. The organization's sexual harassment policy should include office romances, particularly between supervisors and subordinates. Organizations should conduct sexual harassment training for all employees and managers in order to define sexual harassment, consider examples of appropriate and inappropriate conduct, and review the organization's sexual harassment policies and procedures, particularly as to the filing, processing, investigation and disposition of an employee's complaint of sexual harassment.

Employers should consider utilizing professional consulting firms to provide the sexual harassment prevention training. These organizations can provide professional training which includes films and role playing to demonstrate appropriate versus inappropriate conduct in the workplace. These organizations can prepare and present training programs for both employees and supervisors. All educational programs, whether developed in-house or by outside consultants, should be implemented, utilized, and reviewed on a continuing basis.

Lastly, efforts by the employer in this area should be documented to include all aspects of sexual harassment investigations and training for employees and supervisors.

One final caveat to employers would be that if you have a policy of confidentiality regarding sexual harassment complaints, then you must ensure that the investigation and disposition of such complaints are kept confidential, or the alleged harasser may have a separate cause of action against you for violating the confidentiality policy, for invasion of privacy, and also for defamation.

