

U.S. Supreme Court Limits Scope of Civil RICO Suits

Ideal Steel started to lose business to its principal competitor, National Steel. When Ideal learned that National was defrauding New York of state sales taxes and passing these savings on to its cash-paying customers, Ideal sued National and its owners to recover three times Ideal's alleged damages, plus attorneys' fees, under the Racketeer Influenced and Corrupt Organizations Act (RICO). This raised a legal issue of whether Ideal could bring a RICO lawsuit against National, since the tax fraud was against a third party (New York State) and not Ideal directly.

In a 7–2 decision, the U.S. Supreme Court held in *Anza v. Ideal Steel Supply Corp.* that the civil lawsuit provisions under RICO may not be used in these circumstances. The Court reiterated that parties may not sue under RICO absent proof of “some direct relation between the injury asserted and the injurious conduct alleged.” Here, the Court held that the relationship between National's alleged RICO violation (defrauding New York of taxes) and Ideal's loss of business was too tenuous to satisfy this requirement. The Court noted that Ideal's loss of business could have resulted from normal economic factors, including National's legitimate competitive activities. Even if Ideal could prove that National's tax fraud caused its injury, the remote nature of the link between National's tax scheme and Ideal's losses would make any damage award highly speculative. On the other hand, if the direct victim of National's alleged RICO violations (the State of New York) pursued its own remedy, which the Court suggested was the true intention of RICO's civil action provisions, damages would be considerably easier to calculate. The Court declined to consider the issue whether RICO requires a plaintiff to prove reliance—an issue that has split the federal circuit courts and was the basis upon which the trial court initially dismissed the case.

In *Ideal Steel*, as in previous civil RICO decisions, the Court has interpreted the causation requirements narrowly, partly out of concern that indirect claims blur the line between RICO and antitrust laws. As Justice Breyer noted in his concurring opinion, RICO was enacted to prevent organized criminals from taking over or operating legitimate businesses, not to adjudicate claims of injury by one competitor where the legitimate, pro-competitive activity of another competitor caused that injury. *Ideal Steel* will further limit claims by parties who have been injured only indirectly by alleged RICO violations.

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