

## Article Information

Authors: Tim O’Callaghan, Travis Shueard, Zara Cox

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## Native Extracts v Plant Extracts: essential elements of confidential information claims

**The recent decision of *Native Extracts Pty Ltd v Plant Extracts Pty Ltd (No 2)* [2024] FCA 106 highlights the importance for a business to exercise particular caution when sharing information that it wishes to protect confidentially.**

**While *Native Extracts* considers several claims, the decision does emphasise that the value in confidential information is the protected confidence of the information from disclosure to the public, and it is this imported secrecy which must be clear to any potential misusers.**

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### Background & Material Facts

Ms Lisa Carroll and Mr Ross Macdougald commenced a relationship in late 2011.<sup>[1]</sup> At the time, Mr Ross Macdougald was a director of FPI Oceania Pty Ltd (**FPI**).<sup>[2]</sup>

In 2012, Ms Carroll and Ross Macdougald discussed starting a new business which would manufacture and sell botanical plant extracts.<sup>[3]</sup> Mr Ross Macdougald informed Ms Carroll about an extraction machine which he had learned about from his Italian oil supplier.<sup>[4]</sup> The pair travelled to Italy to receive hands-on training on how to use the machine to extract cold liquid from dry eucalyptus leaves.<sup>[5]</sup> A 2 litre version of the extraction machine was then purchased by FPI.<sup>[6]</sup>

Native Extracts Pty Ltd (**Native Extracts**) was then incorporated on 12 November 2012 with Ross Macdougald as sole director until Ms Carroll became a director on 22 April 2014.<sup>[7]</sup> Native Extracts operated out of the same warehouse as FPI, although the companies operated separately.<sup>[8]</sup>

Using the 2 litre extraction machine and a 40 litre extraction machine that was acquired in late 2012, Native Extracts manufactured and sold botanical plant extracts for use in products such as food, beverages, cosmetics and pharmaceuticals.<sup>[9]</sup>

On 3 July 2014, the Native Extracts Holding Trust (**Trust**) was established, with Ross Macdougald and Ms Carroll as trustees.<sup>[10]</sup> Phytoverse Pty Ltd (**Phytoverse**) was incorporated on 15 December 2014 and also operated out of the same warehouse.<sup>[11]</sup>

In December 2015, Ms Carroll and Ross Macdougald ended their personal relationship, with Mr Ross Macdougald agreeing to leave Native Extracts.<sup>[12]</sup>

On 31 March 2016, Ross Macdougald, Phytoverse and FPI entered into a Deed of Settlement with Native Extracts and the Trust.<sup>[13]</sup> The Deed contained a restraint of trade clause as well as a confidentiality clause, which restrained Mr Ross Macdougald, Phytoverse and FPI as well as their employees, agents and contractors from disclosing “any knowledge, records or understanding of any information, processes, trade secrets, client records, or any other intellectual property used by” Native Extracts in the conduct of its business.<sup>[14]</sup>

On 8 July 2016, Plant Extracts Pty Ltd (**Plant Extracts**) was incorporated, with Jordan Macdougald (Ross Macdougald's son) appointed as a director.<sup>[15]</sup> Like Native Extracts, Plant Extracts manufactured and sold botanical plant extracts.<sup>[16]</sup> It commenced operating within the restraint period by using two extraction machines that had been acquired by Phytoverse in May 2016.<sup>[17]</sup>

Both Mr Ross Macdougald and Mr Jordan Macdougald were involved in the business, with the ownership and control of Plant Extracts transferring to Ross Macdougald less than one month after the restraint period elapsed.<sup>[18]</sup>

Native Extracts and the trustees of the Trust made various claims relating to restraint of trade breaches, copyright infringement and *Australian Consumer Law* contraventions.<sup>[19]</sup> Further, the applicants claimed that Ross Macdougald and Phytoverse breached the confidentiality clause in the Deed by disclosing information to Plant Extracts that was confidential to Native Extracts or the Trust.<sup>[20]</sup> By reason of those breaches, Ross Macdougald also breached his statutory and equitable duties of confidence and Plant Extracts, Phytoverse and Jordan Macdougald breached their statutory and equitable duties by aiding or abetting, or by being knowingly concerned in, a party to, or knowingly involved in Mr Ross Macdougald's breaches.<sup>[21]</sup>

Ross Macdougald, Plant Extracts, Phytoverse, FPI and Biologi admitted the majority of the facts concerning the restraint of trade claims, the copyright infringements and the *Australian Consumer Law* contraventions.<sup>[22]</sup> They also admitted to breaches of confidence in relation to information contained in Native Extracts' Extract Log/Formula Book, Grower's Matrix and List of Suppliers and Customers.<sup>[23]</sup> However, all the respondents disputed that the brand, model number and technical features of the extraction machine used by Native Extracts to manufacture its botanical extracts "*in circumstances where that machine was not ordinarily used for the purpose of manufacturing botanical plant extracts*" (**Extraction Machine Information**) was confidential information.<sup>[24]</sup>

### **Findings - What is Confidential Information?**

The Court found that all of the breach of confidence claims relating to the Extraction Machine Information failed.<sup>[25]</sup> The Court also held that Ross Macdougald had not breached his equitable duty of confidence as the Extraction Machine Information did not constitute confidential information.<sup>[26]</sup>

In doing so, the Court highlighted the established principles relating to breaches of confidence in equity. The first important concept is that '*an equitable duty of confidence lies in the notion of an obligation of conscience arising from the circumstances in or through which the information was communicated or obtained*'.<sup>[27]</sup>

As set out in *Optus Networks Pty Ltd v Telstra Corporation Ltd* [2010] FCAFC 21, there are four elements that must be satisfied to establish a claim for breach of confidence.<sup>[28]</sup>

1. First, the information relevant to the claim '*must be identified with specificity*'.<sup>[29]</sup> The information must be sufficiently defined such that a court would be able to grant appropriate relief for a breach of confidence.<sup>[30]</sup>
2. Second, the information '*must have the necessary quality of confidence*', or in other words, must be "*relatively secret*".<sup>[31]</sup> This is a question of fact having regard to a range of factors which includes the extent to which the information is known outside of the business, the extent of any measures taken to guard the secrecy of the information and the ease or difficulty of others being able to acquire or duplicate the information.<sup>[32]</sup>
3. Third, the information '*must have been received by the respondent in circumstances importing an obligation of confidence*'.<sup>[33]</sup> The information must have been given in such a way that the person receiving the information would realise that they could not freely deal with the information as their own.<sup>[34]</sup>
4. Finally, '*there must be an actual or threatened misuse of the information without the applicant's consent*'.<sup>[35]</sup> Just because a person has access to another's confidential information does not mean there has been a breach of confidence. That person must actually have misused or threatened to misuse the information without consent.

The Court considered these elements and found that the Extraction Machine Information was identified with specificity and that there was an actual or threatened misuse of the information without Native Extracts' consent.<sup>[36]</sup>

However, the Court held that the information failed to have the necessary quality of confidence and that instead, the information was in the public domain.<sup>[37]</sup> This was because information about the existence and brand of the machine as well as its technical features was disclosed to multiple people, including Ross Macdougald, prior to Native Extracts and the Trust even being incorporated.<sup>[38]</sup> The manual for the extraction machine, detailing the brand, model number and technical features, and which contemplated use in relation to manufacturing botanical extracts, was kept on the desk of Ms Carroll's son and was able to be viewed by anyone who entered the warehouse.<sup>[39]</sup> Further, technical features of the machine were able to be viewed publicly in the machine's associated patent.<sup>[40]</sup>

The Court also held that the Extraction Machine Information was not received by Ross Macdougald in circumstances importing an obligation of confidence, given that he was told about the machine by a third party prior to the existence of

Native Extracts and the Trust and that there was no evidence to suggest he was prevented from sharing this information with anyone.[\[41\]](#)

Given these matters, Ross Macdougald did not owe an equitable duty of confidence to Native Extracts or the Trust in relation to the Extraction Machine Information.[\[42\]](#)

The Court rejected any breach of fiduciary or statutory duty, given that Ross Macdougald had not obtained the Extraction Machine Information in his capacity as director. [\[43\]](#) The Court also rejected any breach of the confidentiality clause of the Deed, as the obligation contained in the clause did not extend to the Extraction Machine Information.[\[44\]](#)

Importantly, the Court recognised that *‘a contractual obligation may be imposed which requires a person to keep information confidential which extends beyond the subject matter which would otherwise be protected by an equitable duty of confidence.’*[\[45\]](#) In this case, however, a literal consideration of the express terms of the Deed indicated that the confidentiality clause be construed as limited to subject matter which retained the necessary quality of confidence.[\[46\]](#) Therefore, the Extraction Machine Information was not covered by the confidentiality clause of the Deed.

Consequently, the Court ordered that Mr Ross Macdougald and Phytoverse pay Native Extracts damages or an account of profits.[\[47\]](#) The Court also ordered additional damages against Plant Extracts due to their flagrant copyright infringement of Native Extracts’ certificates of independent analysis relating to the composition of botanical plant extracts.[\[48\]](#)

### Takeaways

Businesses need to take care in ensuring sufficient measures are taken to guard confidential information. It is important to store confidential information in a secure way and to avoid sharing the information unless it is necessary to do so. If information is to be shared, it must be made clear to the receiver of that information that they have an obligation to maintain confidentiality. Further, confidentiality clauses included in contracts (such as employment contracts) must ensure that the relevant confidential information is clearly and specifically contemplated by the clause.

Piper Alderman has a nationally recognised practice in intellectual property enforcement and protection, with experience in all jurisdictions. Please contact Tim O’Callaghan and his team if you require intellectual property advice.

[\[1\]](#) *Native Extracts Pty Ltd v Plant Extracts Pty Ltd (No 2)* [2024] FCA 106 [1] (“**Native Extracts**”).

[\[2\]](#) Ibid [2].

[\[3\]](#) Ibid [4].

[\[4\]](#) Ibid [6].

[\[5\]](#) Ibid.

[\[6\]](#) Ibid [7].

[\[7\]](#) Ibid [8].

[\[8\]](#) Ibid.

[\[9\]](#) Ibid [9].

[\[10\]](#) Ibid [10].

[\[11\]](#) Ibid [12].

[\[12\]](#) Ibid [13].

[\[13\]](#) Ibid [14].

[\[14\]](#) Ibid [15] – [16].

[\[15\]](#) Ibid [17].

[\[16\]](#) Ibid [18].

[\[17\]](#) Ibid.

[\[18\]](#) Ibid [18], [20].

[\[19\]](#) Ibid [25].

[\[20\]](#) Ibid [27].

[\[21\]](#) Ibid [28].

[\[22\]](#) Ibid [26].

[\[23\]](#) Ibid [27] – [28].

[\[24\]](#) Ibid [31].

[\[25\]](#) Ibid [107].

[\[26\]](#) Ibid [65], [77].

[\[27\]](#) Ibid [66] citing *Moorgate Tobacco Co Ltd v Phillip Morris (No 2)* (1984) 156 CLR 414, 438.

[\[28\]](#) Ibid [67] citing *Optus Networks Pty Ltd v Telstra Corporation Ltd* [2010] FCAFC 21 [39].

[\[29\]](#) Ibid [68].

[\[30\]](#) *IPC Global Pty Ltd v Pavetest Pty Ltd (No 3)* [2017] FCA 82 [191].

[\[31\]](#) *Native Extracts (n 1)* [69] – [70].

[\[32\]](#) Ibid [69].

[\[33\]](#) Ibid [71].

[\[34\]](#) Ibid.

[\[35\]](#) Ibid [72].

[\[36\]](#) Ibid [73].

[\[37\]](#) Ibid [75].

[\[38\]](#) Ibid.

[\[39\]](#) Ibid.

[\[40\]](#) Ibid.

[\[41\]](#) Ibid [76].

[\[42\]](#) Ibid [77].

[\[43\]](#) Ibid [79], [105].

[\[44\]](#) Ibid [101].

[\[45\]](#) Ibid [92] citing *Zomojo Pty Ltd v Hurd (No 2)* [2012] FCA 1458 [179].

[\[46\]](#) Ibid [98] – [99].

[\[47\]](#) Ibid [231], [295].

[\[48\]](#) Ibid [298] – [304], [334].