

The Use of Trademarks in International Private Label Manufacturing

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Abstract: In judicial practice, China's approach to adjudicating foreign-related private-label manufacturing cases has undergone continuous evolution, with the determination of "trademark use" shifting from a formalistic to a substantive focus. This article examines the issue of trademark use in such infringement cases against foreign private-label manufacturers against this backdrop. While the core of trademark infringement lies in assessing the likelihood of confusion, the determination of trademark use remains a critical factor in such cases. Although "trademark use" and "confusion likelihood" share certain similarities, they are not mutually exclusive but rather distinct evaluation dimensions requiring separate standards. Furthermore, academic consensus remains limited regarding the precise role of trademark use in infringement determinations. In foreign-related private-label manufacturing, even when the affixation of a trademark lacks domestic promotion or sales exposure, and consumers have no direct contact with the mark, the act still constitutes trademark use under the "subject standard." Whether this constitutes infringement ultimately requires comprehensive assessment of factors including confusion likelihood and regional context.

Keywords: Private Labeling; Trademark Use; Possibility of Confusion; Commercial; Identifiable

1. Introduction

Foreign-related private labeling is a special form of trade, where the private labeling production occurs domestically, while the commodity distribution takes place overseas. In trademark infringement rulings concerning foreign-related private labeling, judges hold divergent views, and academic circles also exhibit differing interpretations. The primary disputes center on

defining trademark use and market confusion—specifically, whether the act of affixing a trademark constitutes trademark use and whether it constitutes trademark infringement due to causing market confusion. The root of the controversies surrounding trademark use discussed in this article lies in the essential element of trademark use: whether the mark possesses identifiability. Taking the case of Trademark "PRETUL" (Case No.38 of 2014 Min Ti Zi) as an example, the Supreme People's Court held in its retrial judgment that all the involved padlocks were exported to Mexico and not sold in the China market; therefore, the mark could not serve its identifying function within China and thus did not constitute trademark use. However, in the retrial judgment of Case No. (2019) Zui Gao Fa Min Zai 138 concerning the "HONDAKIT" trademark, the Supreme People's Court held that affixing trademarks during foreign-branded manufacturing constitutes "trademark use" and thus amounts to trademark infringement. In this latter case, the Supreme People's Court rendered a judgment markedly different from the previous one, highlighting the significance and complexity of addressing trademark use issues. Objectively, products manufactured through private labeling sold overseas do not cause trademark identification confusion in the domestic market; yet the subject determining trademark use is not the consumer. Would there be an inherent contradiction if the determination of trademark use were made from the consumer's perspective? Given the significance and complexity of trademark usage, this paper conducts an in-depth exploration of trademark utilization from the perspective of cross-border private labeling operations.

2. The Theoretical Basis for the Use of Trademarks

2.1 The Intrinsic Constituent Elements of Trademark Usage

Article 48 of the Trademark Law stipulates:

"The use of trademarks as defined in this Law refers to the application of trademarks on goods, product packaging or containers, commercial transaction documents, or their use in advertising, exhibitions, and other commercial activities to identify the source of goods." An analysis of the article's constituent elements reveals that its first half enumerates common forms of trademark usage in public commercial activities, highlighting the objective and formal element of commercial nature. The ability of a trademark to serve its identification function depends on the public commercial nature of the goods or services. [1] Use solely for administrative purposes or non-public identifiers targeting consumers do not meet the definition of trademark use. Commercial activities constitute a crucial means for establishing connections between trademarks and goods and building brand reputation; their scope extends beyond profit-generating operations or product distribution processes and should be interpreted broadly. [2] In cross-border private labeling operations, although the product processing and trademark application stages may not directly engage consumers, such operations should be viewed holistically rather than in isolation. Consequently, the act of affixing trademarks satisfies the commercial nature requirement, establishing a connection between trademarks and goods that subsequently impacts brand reputation.

The latter part of the legal provision—"actions used to identify the source of goods"—refines another essential component of trademark use: identifiability. Article 3 of the Implementing Regulations of the Trademark Law promulgated in 2002 also governed trademark usage but omitted the reference to identifiability; this element was only incorporated into the 2013 Third Revised Trademark Law, which came into effect in 2014. The provisions on "trademark use" in the Trademark Law clearly establish that the "differentiating and identifying function" serves as the prerequisite for such use. In other words, whether an act constitutes trademark use hinges on its ability to enable the relevant public to distinguish between the sources of goods or services—that is, whether consumers can engage in "brand-based purchasing." [3] Identifiability represents a substantive element characterized by inherent uncertainty and ambiguity; different actors may hold varying interpretations regarding its applicability, making it challenging

to determine conclusively.

Regarding the relationship between commerciality and identifiability, neither can be satisfied in isolation; rather, they are closely interdependent. The realization of identifiability relies on publicly conducted commercial activities aimed at consumers—generally, meeting the requirement of identifiability implies simultaneous fulfillment of commerciality. However, since determining the source of goods is inherently uncertain, it is difficult to directly assess whether the requirement of identifiability is met. Therefore, starting with the simpler and more easily quantifiable objective element of commerciality follows a more logical approach, progressing from the straightforward to the complex step by step. Moreover, while the first constituent element is presented through enumeration, which cannot comprehensively cover all scenarios, identifiability—as the essential characteristic of trademark use—effectively addresses the limitations of this enumerative approach.

2.2 The Relationship between Trademark Use and the Possibility of Confusion

Since the introduction of the "use of trademarks" clause in 2013, trademark use has consistently been defined by two core components: the substantive element of identifying the source of goods or services, and the formal element of commercial activities conducted toward consumers—these jointly constitute trademark use as defined by trademark law. An analysis of trademark use from both subjective and objective perspectives is prevalent in judicial practice and academic research. Objectively, trademark owners use trademarks when associating them with goods or services in commercial activities targeting consumers; subjectively, they employ trademarks with the intent to establish their distinctiveness. While formal and objective elements are relatively straightforward to determine in trademark infringement cases, substantive and subjective elements pose challenges due to their inherent uncertainty and susceptibility to subjective value judgments, making them difficult to objectively define. This rationale supports the views of scholars who deny the independence of trademark use, arguing that the substantive elements are too abstract and ambiguous, and that proponents of trademark use independence

merely seek an erroneous and illusory certainty.[4] Despite the ambiguity surrounding these elements, some scholars maintain that legal frameworks can still attempt to ascertain the intent behind actions through objective assessments of subjective intent, akin to the objective evaluation standards applied in civil law for negligence cases.[5]

Furthermore, the frequent overlap in determining trademark use and the likelihood of confusion stems from its inherent normative foundations. Article 7 of the "Standards for Determining Trademark Infringement" stipulates: "To determine whether an act constitutes trademark use, factors such as the user's subjective intent, method of use, promotional methods, industry practices, and consumer perception shall be comprehensively considered." This indicates that the user's subjective intent can be inferred through objective factors like the manner of use and promotional methods. However, the factor of "consumer perception" may overlap with the assessment of "possibility of confusion" in trademark infringement cases. Consequently, some scholars argue that trademark use lacks independence, with the overlap stemming from both employing the "consumer perception standard" —a criterion that can fully be encompassed by the "possibility of confusion" principle.[5] The core determinant of liability for infringement is not trademark use per se, but rather the likelihood of confusion.[6] This development has progressively eroded the independent status of trademark use.

However, this is not the case. The acts of infringing upon registered trademark rights stipulated in Article 57 of the Trademark Law include both direct and indirect infringement. Although the term "use" does not appear explicitly in the provision, both forms essentially constitute trademark use—namely, identifying the source of goods or services in commercial activities. Items 1 to 5 represent direct infringement, while item 6 constitutes indirect infringement. Professor Liu Wei pointed out that items 4 and 5 fall under legislative constructs of trademark infringement; trademark rights protection encompasses both actual trademark use and statutory constructs, with actions beyond this scope falling outside the scope of trademark rights protection.[4] Regarding statutory constructs, Article 3 of the "Standards for Determining Trademark Infringement" (hereinafter referred to as the "Standards") states:

"To determine whether infringement has occurred, one generally needs to assess whether the alleged infringing act constitutes trademark use as defined by the Trademark Law." This indicates that trademark use is typically a prerequisite for infringement, though exceptions exist. For example, the act specified in Item 4 of Article 57—the "forgery or unauthorized production of another party's registered trademark marks, or sale of such forged or unauthorized marks" —does not yet involve the association of the trademark with goods or the fulfillment of its source-identification function. The Trademark Law regulates this behavior to prevent infringement at its source, constituting a constructive infringement rather than an actual trademark use case; hence the Standards employ the term "generally." Both trademark use and statutory constructs are essentially components of trademark use. The concept of trademark use is defined in Article 48, while its primary manifestations are specified in Article 57. Combined with the provisions of the Standard, this sufficiently demonstrates that trademark use is independent of the likelihood of confusion.

While both trademark use and the likelihood of confusion serve to distinguish sources, the entities responsible for such distinction and the interests they represent differ. Article 1 of the Trademark Law safeguards both the interests of operators who uphold trademark credibility and those of consumers. Trademark use is operator-driven: it establishes a strong association between goods and trademarks, builds goodwill, and maximizes market benefits—a distinction function articulated from the operator's perspective. In contrast, the likelihood of confusion focuses on consumers, ensuring their ability to access desired goods or services of guaranteed quality and maintaining market stability. Fundamentally, these two mechanisms serve producers' interests and consumers' interests respectively; while their protective objectives overlap, they reflect two fundamentally distinct interest orientations.

Some scholars also distinguish between the two from the perspective of cognitive psychology: trademark use involves businesses employing repeated stimuli to enhance consumer memory retention; the likelihood of confusion refers to consumers' perceptual misidentification—that is, a cognitive deviation regarding the correspondence between the alleged infringing mark and the goods or services. The prerequisite

for such perceptual misidentification is that consumers have stored relevant information; thus, "trademark use serves as the foundation for assessing the likelihood of confusion." [7] In summary, both trademark use and the likelihood of confusion are indispensable, each possessing independent value.

2.3 The Role of Trademark Usage in Trademark Infringement

Based on the view that trademark use is independent of the likelihood of confusion and separately constitutes the elements of trademark infringement, the following question arises: In determining trademark infringement, how should the order of evaluation between the two factors be arranged? There are essentially two scenarios: first, trademark use serves as a prerequisite for assessing the likelihood of confusion; second, there is no inherent sequence between the two factors.

Scholars supporting the first perspective argue that trademark infringement determination follows a "funnel-shaped structure": first assessing trademark-like use, then evaluating the likelihood of confusion, and finally excluding legitimate use. Trademark-like use serves as a "gatekeeper," functioning as a preliminary filter; without establishing trademark-like use, the assessment of confusion likelihood becomes meaningless. [6] This view is logically sound but faces challenges in judicial practice: on one hand, there is a lack of unified and accurate standards for determining trademark-like use; on the other hand, given the complexity of cases, hastily ruling that no trademark-like use exists would exclude such conduct from the scope of trademark rights protection, thereby limiting the scope of trademark protection.

Scholars supporting the second perspective argue that both approaches are viable: either first determining trademark use before assessing the likelihood of confusion, or first determining the likelihood of confusion before inferring trademark use. Currently, the types of confusion possibilities have become increasingly diverse—such as source confusion, post-sale confusion, initial interest confusion, and reverse confusion—which require comprehensive consideration of factors like trademark distinctiveness and market recognition. Opponents, however, point out that the concept of confusion possibility itself carries inherent uncertainty, and its assessment is equally

challenging. [6]

The author contends that compared to trademark use—which lacks specific evaluation criteria and whose subjective intent is difficult to ascertain—the consumer's perception serves as a more readily identifiable decisive factor in assessing confusion possibility. Therefore, under specific circumstances, inferring trademark use from confusion possibility is reasonable. While confusion possibility functions as a conclusive element in trademark infringement cases, where the outcome aligns more logically with the alleged conduct, the approach of deriving conduct from the outcome proves more practical when the outcome is easier to determine. This is particularly relevant in cross-border private-label manufacturing cases, where processes such as processing, physical attachment, transportation, and sales are typically carried out by different entities; when the subjective intent behind physical attachment is unclear, confusion possibility can effectively substantiate trademark use.

In addition, some scholars argue that the foreign-related private labeling activities conducted by processing enterprises constitute trademark usage in themselves and, in principle, do not infringe domestic trademark rights. Such activities are only deemed to infringe domestic trademark rights under exceptional circumstances—such as when products are exported for domestic sale, when there is an associated relationship between the parties, or when the activities fall outside the scope of foreign-related private labeling. This establishes a three-stage approach for determining trademark infringement. [8]

When comparing trademark laws abroad, most countries not only recognize the independence of trademark use by stipulating definitions and forms of expression in dedicated provisions, but also generally consider mere physical attachment as a manifestation of trademark use. Some jurisdictions even explicitly include foreign-related private labeling processing within their legal frameworks. For example: Article 26(4) of Germany's Trademark and Other Signs Protection Act states: "The attachment of a trademark to goods or their packaging within the territory, for export purposes only, shall also be deemed as use of the trademark within that territory"; Article 16(5) of the EU Trademark Directive specifies that affixing a trademark to goods or their packaging solely for export

purposes constitutes trademark use; Similarly, Article 10(4) of the UK Trademark Act and Section 1127 of the U.S. Lanham Act contain analogous provisions. This demonstrates that international legislation universally considers the attachment of trademarks to goods or packaging during production—a process regardless of whether it enters the sales phase or involves domestic or export sales—to be a typical act of trademark use.[2] However, constituting trademark-like use does not equate to trademark infringement. In foreign-related private labeling processing, the attachment of trademark marks merely utilizes the private labeling foreign trade model as the vehicle and usage context; this context itself does not substantially influence the determination of infringement regarding the trademark attachment. Whether an act constitutes trademark infringement must still be judged primarily by the likelihood of confusion—a criterion that underscores the independent legal value of trademark-like use. [9] This precisely exemplifies the independent value inherent in trademark-like use.

3. Analyzing the Composition of Trademark Use in Private Label Processing from the Perspective of the "Subject Standard of the Actor"

The use of trademarks constitutes a commercial activity undertaken by business operators to distinguish product sources, reflecting their legitimate interests. Applying the "consumer perception" standard to evaluate commercial entities' actions reveals inherent contradictions. To address this, scholars have proposed the "subjective actor standard," which assesses trademark usage solely based on the actor's subjective intent—to identify product sources—and their objective engagement in commercial activities, disregarding consumer perceptions. This approach decouples trademark usage determination from consumer perception, resolving its entanglement with potential confusion risks. [5] The author endorses this perspective, which has also been adopted by judges in practice. For instance, In the case (2011) Su Zhi Min Zhong Zi No.33, "Meisitek," the judge ruled that the defendant had exploited the plaintiff's trademark reputation for commercial purposes to attract traffic, constituting trademark infringement. In the case (2020) Wan 0291 Min Chu No.466, "West Lake Longjing," the judge held that the defendant's

use of the "West Lake Longjing" and similar marks on packaging and online stores served to identify the product's origin, constituting trademark usage. Neither case relied on the "consumer perception" standard. These examples demonstrate the strong applicability of the "subjective actor standard."

From the perspective of the "subject standard of the actor," the act of affixing trademarks in foreign-related private labeling primarily involves the operator's objective use of trademark identifiers, satisfying the objective requirement of commercial purpose. However, merely meeting this objective requirement is insufficient to constitute trademark use under trademark law; the key lies in determining whether the actor subjectively intended to utilize the trademark's identification function. If the intent was to indicate and distinguish the source of goods, the requirement of identifiability is satisfied; otherwise, it is not. The actor's subjective intent can be assessed through objective scrutiny, such as evaluating the trademark's domestic reputation or verifying compliance with due diligence obligations prior to contract execution—similar to the objective standards for negligence in civil law. [5] When assessing "identifiability" proves challenging, the outcome-based criterion of potential confusion may be used to infer the behavioral element of trademark use. While outcomes that align more logically with expectations are preferable, practical application finds it more convenient to deduce behavioral intent from easily verifiable results.

In the (2019) Supreme People's Court Civil Reexamination No.138 case titled "HONDAKIT," the Supreme Court held that the OEM business model encompasses all activities within the production process—including physical attachment, transportation, and market distribution—and must be considered as an integrated whole rather than isolated segments. Any occurrence of relevant possibilities during the production phase shall be deemed trademark use. Therefore, foreign-related OEM practices cannot be dismissed solely on grounds of territoriality or the absence of "confusion among the relevant public." The case expanded the definition of the "relevant public" to include anyone who may come into contact with the exported products, such as consumers and businesses potentially exposed to the infringing goods. In today's era of advanced online

transactions, China consumers are fully susceptible to exposure to exported goods. In this context, the productive use of trademarks constitutes not merely a physical attachment act but rather a legally valid act of trademark use. Whether it ultimately constitutes trademark infringement requires a comprehensive assessment considering various factors such as the likelihood of confusion and regional characteristics. [10]

4. Conclusion

While China's Trademark Law provides comprehensive provisions on trademark use, it remains uncertain in addressing emerging issues such as foreign-related private labeling and implied trademark usage. To address this, a systematic analysis is essential to clarify the fundamental elements of trademark use—particularly its identifying nature, which involves substantive and subjective criteria aimed at distinguishing product sources. The evaluation should adopt the "subject standard" approach to objectively determine the subjective intent of private labeling entities. Furthermore, foreign-related private labeling operations should be assessed holistically regarding their trademark use and potential for confusion. In practice, confusion risk is often prioritized, while trademark use is marginalized; yet the independence of trademark use persists. When determining trademark infringement in private labeling cases, there is no strict order between assessing trademark use and confusion risk. Prioritizing trademark use as a prerequisite would restrict trademark protection scope, hinder thorough infringement analysis, and complicate practical implementation.

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