



The Small and  
Medium  
Enterprise  
Agency

# **Summary of the Act to amend the Subcontract Act and the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises**

**New Title: "Act Against Delay in Payment of Fees, etc. to Small and Medium-sized  
Entrusted Business Operators in Manufacturing and Other Specified Fields"  
"Act on Promotion of Entrusted Small and Medium-sized Enterprises"**

**May 2025  
Japan Fair Trade Commission  
Small and Medium Enterprise Agency**

# Overview of the current Subcontract Act

- The official name of the Subcontract Act is the “Act Against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors” (enacted in 1956) .
- The purpose of the Act is to ensure fairness in subcontracting and to protect the interests of subcontractors.

## Scope of the Subcontract Act

### <1> Transactions

Manufacturing Contract

Information-based Product Creation Contract

Repair Contract

Service Contract

### <2> Capitalisation Criteria

Manufacturing Contract

main subcontracting business operators:  
capital more than ¥300 million

Subcontractors:  
capital ¥300 million or less (including individuals).

Repair Contract

main subcontracting business operators:  
capital of more than ¥10 million  
and up to ¥300 million

Subcontractors:  
capital ¥10 million or less (including individuals).

Information-based  
Product Creation  
Contract

main subcontracting business operators:  
capital more than ¥50 million

Subcontractors:  
capital ¥50 million or less (including individuals).

Service Contract

main subcontracting business operators :  
capital of more than ¥10 million  
and up to ¥50 million

Subcontractors:  
capital ¥10 million or less (including individuals).

## Obligations and Prohibited Conducts

- **Obligations of the main subcontracting business operators:**

Preparation, Delivery and Reservation of Document and Determination of Payment Dates, etc.

- **Prohibited conducts of the main subcontracting business operators:**

Refusal to Accept, Delayed Payment, Reduction, Return of Goods, and Unfairly Setting an Excessively Low Price, etc.

# Background to the Amendment of the Subcontract Act

## “Basic Policy on Economic and Fiscal Management and Reform 2024” (excerpt)

(Cabinet decision, June 2024)

For that purpose, we will strengthen the enforcement of the Antimonopoly Act, enhance the enforcement of the Subcontract Act in collaboration with relevant ministries and through measures such as the Subcontract G-Men, and **consider amendments to the Subcontract Act.**

## “Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version” (excerpt)

(Cabinet decision, June 2024)

In addition, in cooperation with the competent ministries and agencies, we will work to enhance the number of recommendation cases under the Subcontract Act through comprehensive enforcement, while **also considering revisions to the Subcontract Act.**

## “Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth” (excerpt)

(Cabinet decision, November 2024)

In order to establish appropriate price pass-through throughout the supply chain as a new business practice, **we will consider revisions to the Subcontract Act** regarding how to respond to price deferrals in the face of rising costs, how to respond to transactions between shippers and logistics operators, and the addition of guidance authority by the ministries and agencies in charge of business establishments to strengthen enforcement in cooperation with the ministries and agencies in charge of business sites. **The aim is to submit it to the Diet as soon as possible.**

## “Inter-Enterprise Trade Study Group” (Chairperson: Hideki Kanda, Professor Emeritus, University of Tokyo).

(July - December 2024)

- The JFTC and the Small and Medium Enterprise Agency jointly held an expert panel to discuss revisions to the Subcontract Act.
- The panel included 20 experts, including academics, representatives from economic organizations, consumer groups, and other relevant stakeholders.
- A total of six meetings were held, and the panel's report was **finalized and published on December 25, 2024.**

## Background and Purpose of the Amendment to the Subcontract Act

In response to the rapid increases in labour, raw material and energy costs in recent years, it is necessary for businesses to **secure the resources for wage increases in order to realise “wage increases that exceed inflation nationwide”**.

In order for SMEs and other businesses to secure the resources for their respective wage increases, it is important to **achieve “structural price pass-through” ensuring appropriate price shifting throughout the supply chain**.

In order to eliminate unfair business practices that impose burdens on entrusted business operators by preventing price pass-through, such as unilateral price decisions without negotiation, and to further promote price pass-through by normalizing transactions, we have been considering amendment to the Subcontract Act.

### Effective Date

**January 1, 2026**

\*Certain provisions shall come into force on the date of promulgation of this Act.

# Summary of Amendments to the Subcontract Act

## (1) Prohibition on Determination of Price without Proper Negotiation

[Related to new Article 5(2)(iv)]

### Reason for Amendment

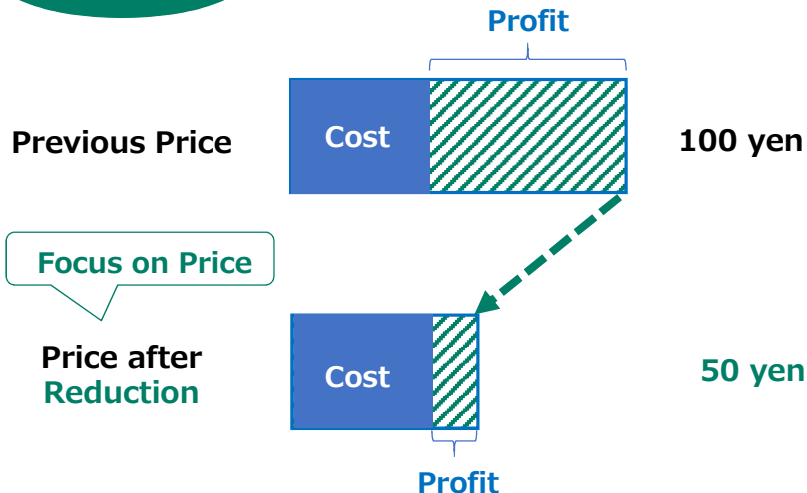
- Challenges are seen with regard to price shifting of increasing costs, such as keeping prices unchanged without negotiation in the face of rising costs, or unilaterally deciding on prices that are not commensurate with rising costs.
- Therefore, it is necessary to develop a trading environment in which appropriate price pass-through takes place.

### Amendment Details

- ◆ Separate from “Unfairly Setting an Excessively Low Price” requiring the recognition of a “market price”, with a view to ensuring equal price negotiations, from the perspective of ensuring fair price negotiations, this Act establishes new provisions prohibiting unilateral price determination, thereby unfairly harming the interests of small and medium-sized entrusted business operators, such as refusing to engage in price negotiations despite requests from small and medium-sized entrusted business operators or failing to provide necessary explanations or information.

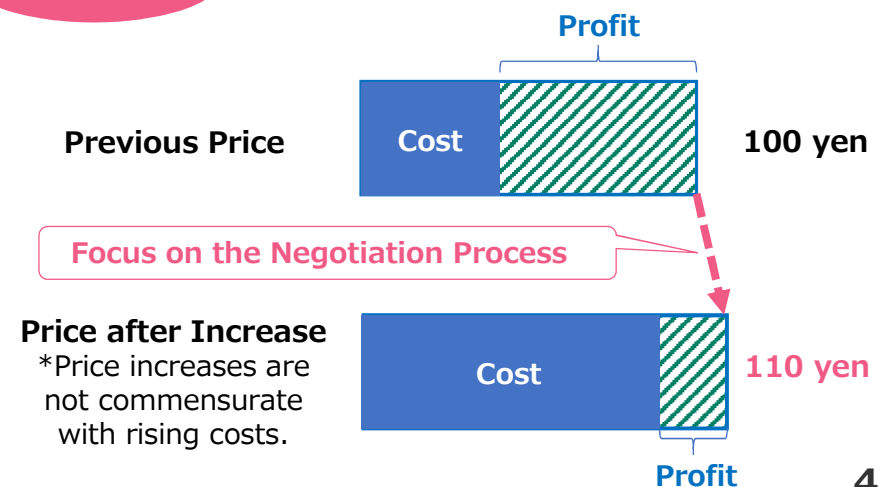
#### Current Act

[Addressing Price Reduction]



#### Amended Act

[Addressing Rising costs Transactions]



# Summary of Amendments to the Subcontract Act

## (2) Prohibition of Payment by Promissory Notes, etc.

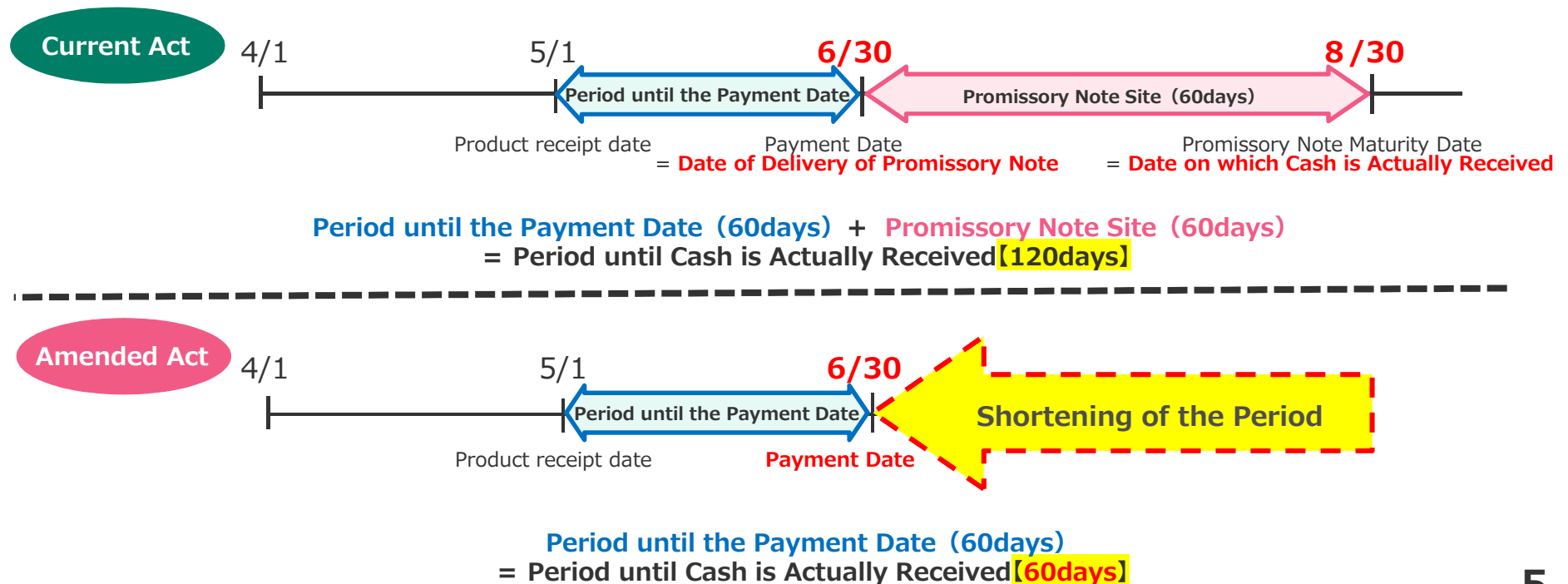
[Related to new Article 5(1)(ii)]

### Reason for Amendment

- By using promissory notes, etc. as a means of payment, the commercial practice of requiring the subcontractors to bear the burden of financing continues.

### Amendment Details

- ◆ In order to protect small and medium-sized entrusted business operators, promissory notes shall not be permitted as a means of payment under this Act.
- ◆ With regard to Electronically Recorded Monetary Claims, etc., those for which it is difficult to obtain the full amount including fees, etc. by the payment date shall not be permitted under this Act.



# Summary of Amendments to the Subcontract Act

## (3) Inclusion of Transport Consignment in the Scope

[Related to new Article 2(5), (6)]

### Reason for Amendment

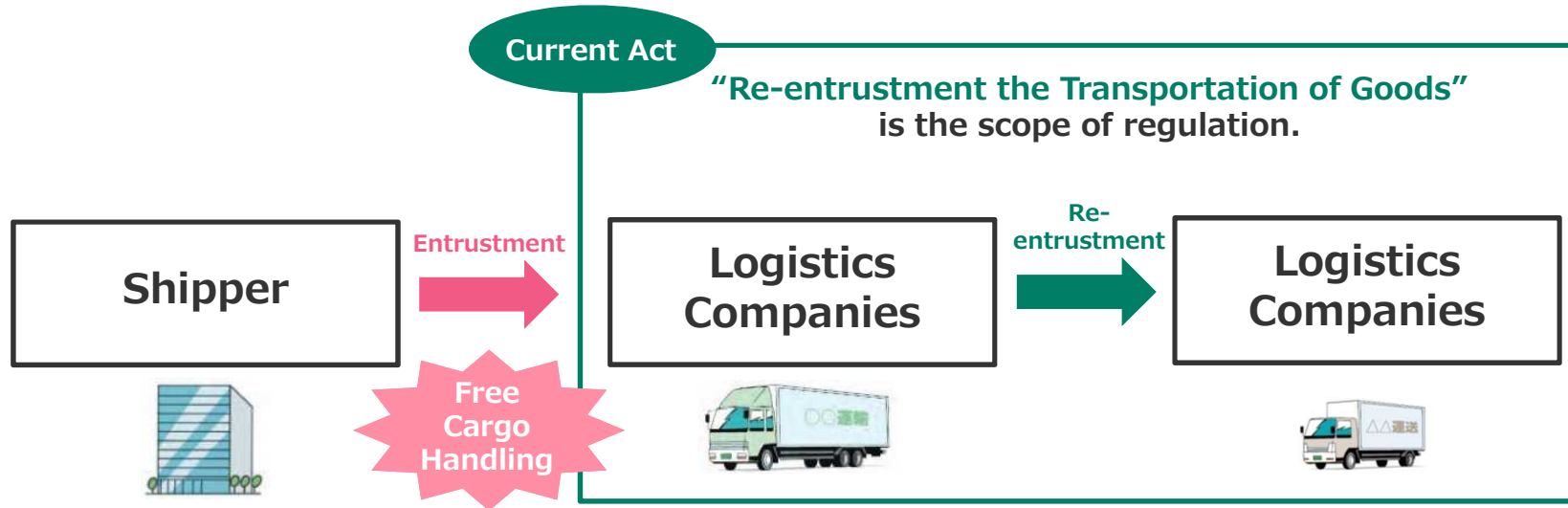
- Entrustment from the shipper to the primary carrier is not covered by this Act.
- Problems between shippers and logistics companies are becoming apparent, such as weak logistics companies being forced to perform loading and unloading and waiting for cargo free of charge.

### Amendment Details

- ◆ Add a new type of transaction, in which the shipper entrusts the transportation of goods to logistics companies, as a new type covered by this Act, to enable flexible response.

### Amended Act

“**Entrustment the Transportation of Goods**” added to the new scope of regulation in addition to the current “**Re-entrustment the Transportation of Goods**”.



# Summary of Amendments to the Subcontract Act

## (4) Additional Employee Criteria

[Related to new Article 2(8), (9)]

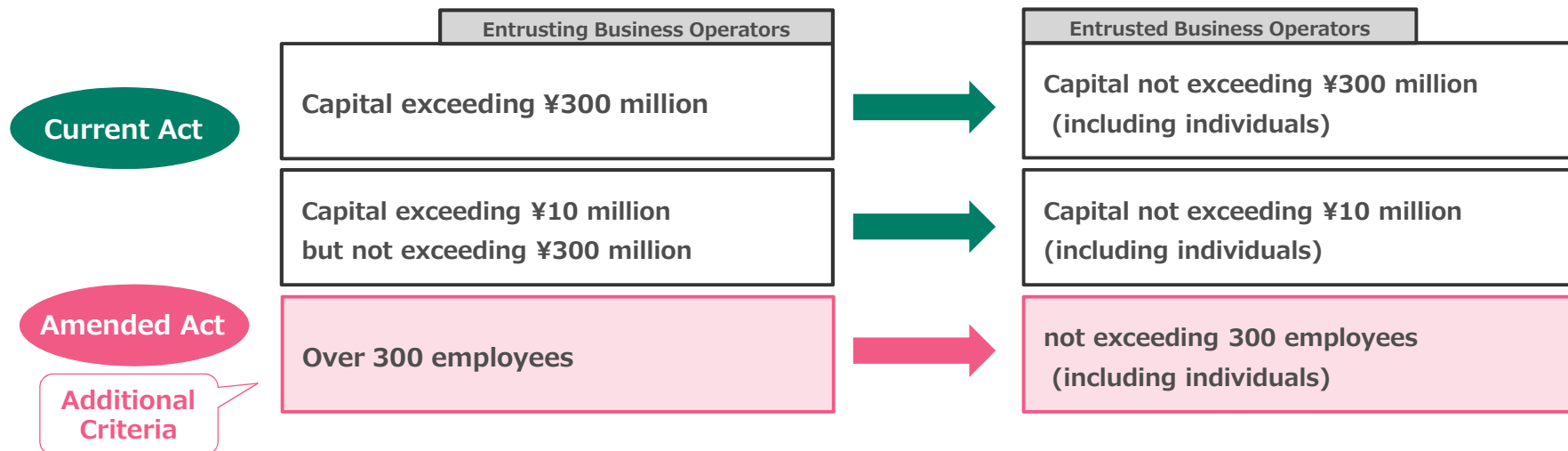
### Reason for Amendment

- There are some entrusting business operators that are large in scale but do not fall under the scope of this Act because their initial capital was small or they reduced their capital.
- In order to evade the application of this Act, some entrusting business operators seek capital increases from the entrusted business operators.

### Amendment Details

- ◆ Add a new criteria regarding the number of employees.
- ◆ Specific criteria are determined based on the purpose of this Act, its operational results, actual business transactions, ease of understanding for business operators, and relevance to existing laws and regulations, with the number of employees set at 300 (Manufacturing Contract) or 100 (Service Contract) as the standard.

[Example of Applicable Standards (e.g. Manufacturing Contract)]





# Summary of Amendments to the Subcontract Act

## (5) Strengthening Extensive Enforcement

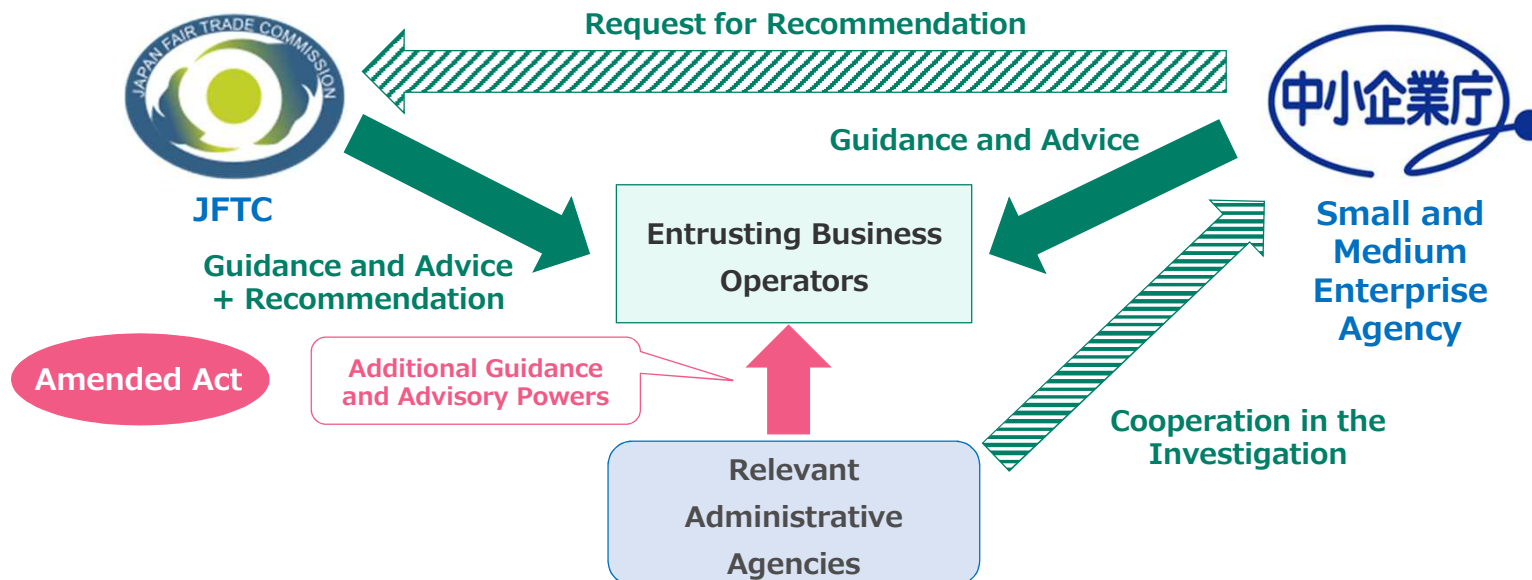
[Related to new Article 5(1)(vii), Article 8, Article 13]

### Reason for Amendment

- Currently, relevant administrative agencies are only granted investigative authority, but it is necessary to further expand the coordinated enforcement efforts of the JFTC, the Small and Medium Enterprise Agency, and relevant administrative agencies.
- If a entrusted business operator reports violations to relevant administrative agencies, it will not be subject to the “Prohibition of Retaliatory Measures” under this Act.

### Amendment Details

- ◆ New provisions have been established regarding guidance and advice from relevant administrative agencies.
- ◆ In order to ensure an environment in which small and medium-sized entrusted business operators can easily report violations, “Prohibition of Retaliatory Measures” will be extended to include reporting to the relevant administrative agencies, in addition to the current reporting to the JFTC and the Small and Medium Enterprise Agency.



# Summary of Amendments to the Subcontract Act

## (6) Review of Terms such as “subcontractor”

[Related to Title, new Article 2(8), (9)]

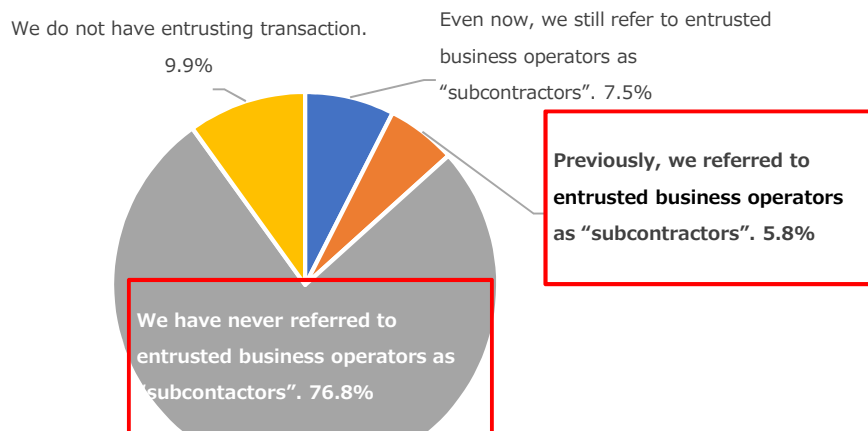
### Reason for Amendment

- It has been pointed out that the term “subcontractor” in the Act gives the impression of a terminology in which the entrusting business operators and the entrusted business operators are not on equal footing.
- With the changing times, the term “subcontractor” is no longer used on the part of large companies, who are the entrusting business operators.

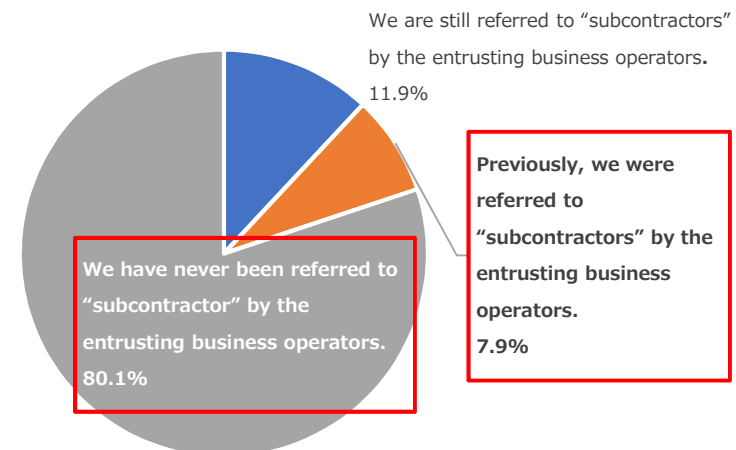
### Amendment Details

- ◆ Regarding terminology, “subcontractors” is revised to “small and medium-sized entrusted business operators”, “main subcontracting business operators” to “entrusting business operators”, etc.
- ◆ Regarding the official title of the Acts, “Act Against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors” is revised to “Act Against Delay in Payment of Fees, etc. to Small and Medium-sized Entrusted Business Operators in Manufacturing and Other Specified Fields.

### Experience of referring to entrusted business operators as “subcontractor” [Voice as entrusting business operators] (n=3,583)



### Experience of being referred to as a “subcontractor” by the entrusting business operators [Voice as entrusted business operators] (n=3,583)



(Source: Small and Medium Enterprise Agency and JFTC, "Questionnaire Survey on the Actual Conditions of Subcontracting Transactions, etc.")

# Summary of Amendments to the Subcontract Act

## (7) Other Necessary Amendments

### Reason for Amendment

- Only moulds used in the manufacture of goods, etc. are regarded as the subject matter of a Manufacturing Contract, while wooden moulds, jigs, etc. are not regarded as the subject matter of Manufacturing Contract.
- With regard to the obligation to Deliver Document, only with the prior consent of the entrusted business operators, the necessary entries may be provided by electronic or magnetic means instead of the delivery of written documents.
- In the case of Delayed Payment, the entrusting business operator is recommended to pay the amount due and pay late interest, but there is no provision for Reduction.
- It is not clear in the regulations whether a recommendation can be made when a entrusting business operator that had refused to receive has received before the recommendation or when a entrusting business operator that had delayed payment has paid the price before the recommendation.

### Amendment Details

- ◆ Wooden moulds, jigs, etc. used exclusively for the creation of products are to be added as objects of Manufacturing Contract in the same way as moulds. [Related to new Article 2(1)]
- ◆ With regard to the obligation to Deliver Document, the required statements can be provided by electronic or magnetic means, with or without the consent of the small and medium-sized entrusted operators. [Related to new Article 4]
- ◆ Add Reduction to the amount subject to late interest, and if the amount of the payment is reduced, late interest shall be paid for the period from the date 60 days after the commencement date to the date of actual payment. [Related to new Article 6(2)]
- ◆ Provisions should be developed for recommendations in cases where no violation has already taken place, so that recommendations can be made on measures to prevent recurrence, etc., even if the entrusting business operator's conduct has been corrected at the time of the recommendation. [Related to new Article 10]

# Overview of the current Act on Promotion of Subcontracting Small and Medium-sized Enterprises (enacted in 1970)

## 1. Aims and Objectives

- Act to improve subcontracting relations and **promote subcontracting SMEs.**

## 2.Scope

- Main subcontracting business operators and subcontractors fulfilling **(1) + (2)** are in the scope of the Act.

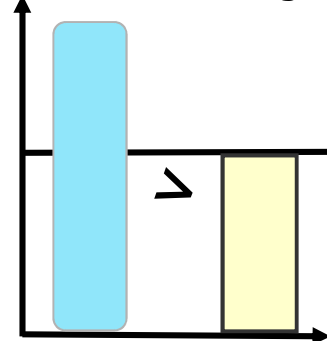
**(1) Commission Contract Types (as in the Subcontract Act).**



**(2) Capital**

**(broader than the Subcontracting Act)**

Capital:  
300 million yen



## 3. Specific Measures

- (i) **The Minister of Economy, Trade and Industry establishes the “Promotion Standards”**\*.

\*Standards to be followed by subcontractors and Main subcontracting business operators. Based on the promotion standards, industry associations have developed voluntary action plans (29 industries, 79 organisations).

(e.g. "We will fully consult in line with the “labour cost guidelines”, "We aim to pass-through on the full cost of raw materials and energy", etc.)

- (ii) **Guidance and Advice** to operators from the competent minister for the business with regard to the above-mentioned “Promotion Standards”.

- (iii) **Investigation and Publication**

(e.g. publication of a **“List of Companies”** (985 in total) on the status of price negotiation and pass-through, with company names).

- (iv) Financial support for **“Promotion Business Plans”** prepared in cooperation between subcontractors and Main subcontracting business operators.

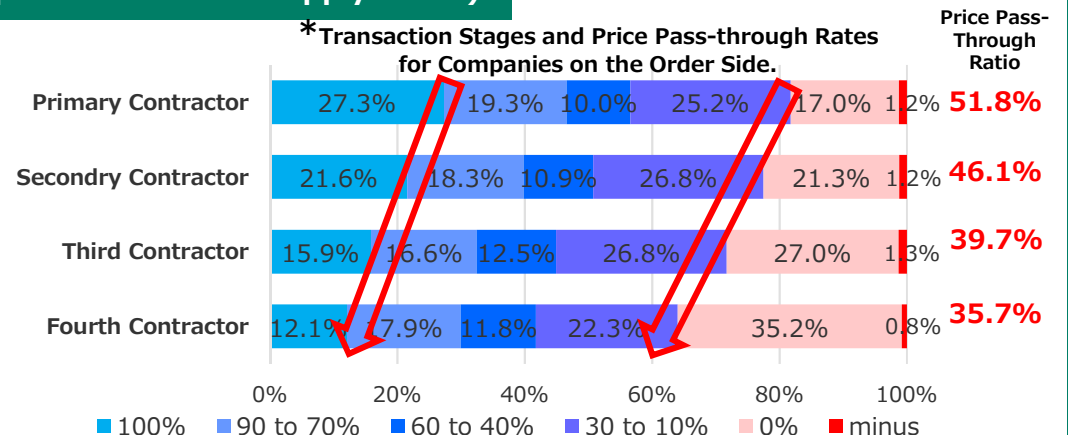
# Summary of amendments to the Act on the Promotion of Subcontracting SMEs (1) (Support for Collaborative Efforts by Multi-Level Operators)

## Issue (1) (Measures to Ensure Proper Trade at Deeper Levels of the Supply Chain)

- The deeper the transaction stage of the supply chain, the lower the percentage of price pass-through.

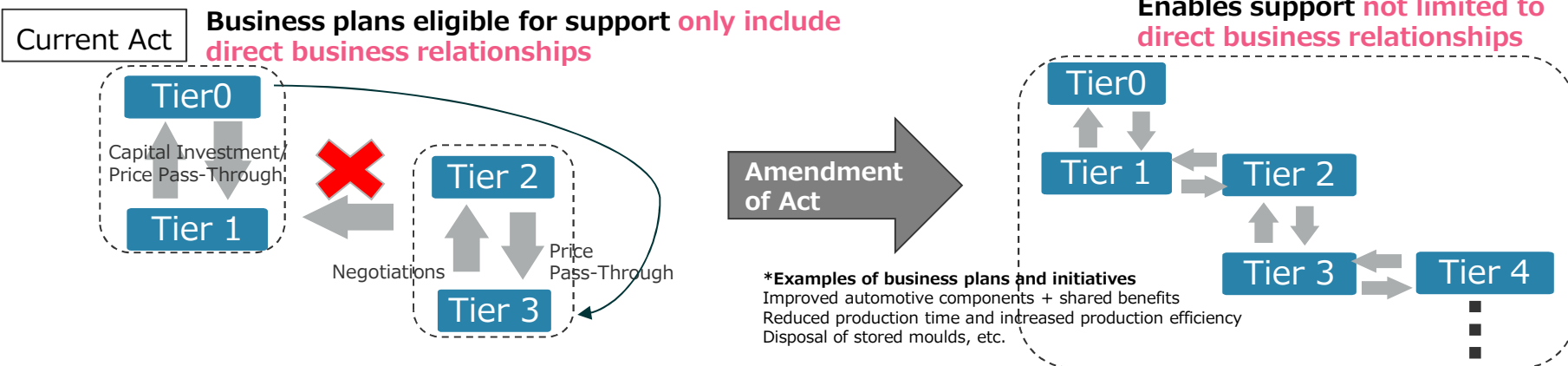
(Results of the Month to Promote Price Negotiations  
(September 2024))

- Business practices that do not 'negotiate prices beyond direct suppliers', one beyond the other, including 'several suppliers'.



## Amendment Details (1) (Support for Collaborative Efforts by Multi-Level Operators)

[Related to new Article 5]



- ◆ Added provisions **allowing approval and support for business promotion plans created by businesses operating at two or more stages** of a multi-stage supply chain.  
⇒ **Encourage efforts to ensure proper transactions, etc., not only with direct suppliers, but also throughout the supply chain.**

## Summary of amendments to the Act on the Promotion of Subcontracting SMEs (2) (Strengthening Cooperation with Local Governments)

### Issue (1) (Measures for the Proper Conduct of Transactions by Local Public Entities)

- Efforts to promote price shifting in the provinces are important to ensure proper trade in each prefecture.

<Example of Initiatives>

- (i) Conclusion of agreements with economic organizations to promote the "Declaration of Partnership Building".  
(Declaration of value addition and adherence to trading practices throughout the supply chain from the perspective of the ordering party; 58,000 companies)
- (ii) Incentives such as subsidy points for declared enterprises.
- (iii) Price negotiation seminars.

#### \*Prefectures' initiatives for the dissemination of the Declaration of Partnership Building.

Ministry of Economy, Trade and Industry (METI) document, '5th Conference on Promoting Partnership Building for the Future (December 2023)'.



### Amendment Details (2) (Strengthening Cooperation with Local Governments)

[Related to new Article 23]

- ◆ New provisions have been established regarding; the responsibility of national and local governments for taking measures to promote businesses throughout Japan in cooperation with each other; and tied collaboration of relevant agencies including information sharing, etc.

⇒ **Promoting price pass-through throughout the country**

New initiative: **Strengthening of cooperation to further utilise the feedback from SMEs** at the "Subcontractor Kakekomidera" set up in 47 prefectures across the country.

## Summary of amendments to the Act on the Promotion of Subcontracting SMEs (3) (Strengthened Enforcement by Competent Ministers)

### Issue (3) (Measures for the Proper Conduct of Transactions by Local Public Entities)

- Guidance and Advice by the competent minister for the business to operators with poor price negotiations, price pass-through, etc., based on the results of hearings by the subcontracting G-Men and the results of surveys during the price negotiation promotion month.  
⇒ Certain effects, such as improved trading policies.
- On the other hand, some operators have not improved their trading policies even after several rounds of guidance and advice.  
⇒ Some of these operators have the will to improve, but have not sufficiently considered specific measures to be taken.

[Related to new Article 4]

### Amendment Details (3) (Strengthened Enforcement by Competent Ministers)

- ◆ New provisions have been established to urge improvement (recommendation) by presenting more specific measures to business operators who have not improved despite guidance and advice by the competent minister.  
⇒ **Increase the effectiveness of price shifting and trade fairness.**

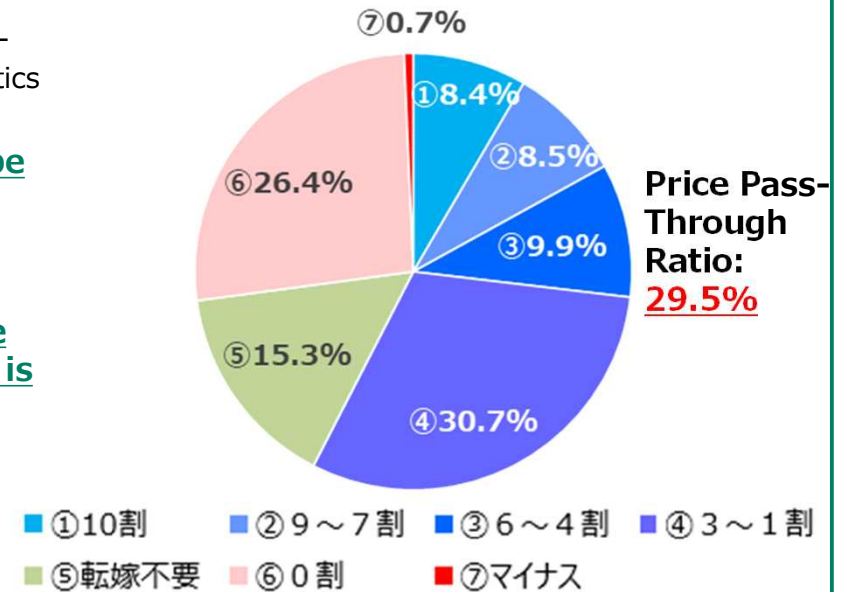
\*Actions are taken against operators who violate the Subcontracting Act in accordance with the Subcontracting Act.

## Summary of amendments to the Act on the Promotion of Subcontracting SMEs (4) (Expanded Scope)

### Issue (3) (Measures for the Proper Conduct of Transactions by Local Public Entities)

- The price pass-on rate for trucking is the lowest in all industries (Results of the Month to Promote Price Negotiations (September 2024)), and it is necessary to promote price pass-on from the source of the commercial flow (Shippers-Logistics companies Transactions).
- ⇒ The business practice of negotiating fares needs to be established in the industry.
- In order to establish smooth and rapid price pass-on throughout the supply chain, it is necessary to promote price pass-through even in transactions where there is no relationship between the size of the capital.

\*Status of Price Pass-through  
in the Trucking Industry [General Costs]



### Amendment Details (4) (Expanded Scope)

[Related to new Article 2(1)(vi), (4), (5)]

- (i) The consignment of transport necessary for the delivery of the object of manufacture, sale, etc. is included in the scope of the Act.
- (ii) Cases involving differences in the number of employees between legal entities are included in the scope of the Act.
  - ⇒ Support and Guidance • Advice • Recommendations are provided to small and medium-sized enterprises (SMEs), **including transactions not covered by the Subcontracting Act, to promote price shifting and proper trade practices.**



## Summary of amendments to the Act on the Promotion of Subcontracting SMEs (5) (Review of Terms such as "subcontractor" )

### Amendment Details (5) (Review of Terms such as "subcontractor" )

[Related to Title, new Article 1, Article2]

- ◆ The terminology in this Act shall also be amended to include "subcontractor" etc.
  - "subcontractor" ⇒ **"entrusted small and medium-sized enterprises"**
  - "main subcontracting business operators" ⇒ **"entrusting business operators"**
  - "Act on Promotion of Subcontracting Small and Medium-sized Enterprises"  
⇒ **"Act on Promotion of Entrusted Small and Medium-sized Enterprises"**