

Report on the Fact-finding Survey on the Trading
Environment for Creators at Film Production Sites

December 2025

Japan Fair Trade Commission

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List of abbreviations used in this report

Number	Abbreviation	Original name and definition
1	The SME Transactions Act	Act on Preventing Delay in Payment to Small and Medium-Sized Entrusted Business Operators in Relation to Manufacturing Consignment (scheduled to take effect January 1, 2026) Note: it has been renamed from the former Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Subcontract Act)
2	the Anti-Monopoly Act	Act on Prohibition of Private Monopolization and Maintenance of Fair Trade
3	The Act on the Improvement of Transactions between Freelancers and Enterprises	Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators
4	Freelance	Freelance: In this report, "freelance" refers to a party that falls under either (1) or (2) below and has no organizational structure: (1) an individual with no employees; or (2) a corporation with only a single representative, no other officers (including directors, executive officers, business-executing members, auditors, or equivalent positions; the same applies below), and no employees.
5	Commercial production/Creative production	"Production" refers to the entire business process (planning and development, fundraising, creation of the work, commercialization, and profit generation) while "creation" refers specifically to the process of making the work and turning it into a product. ¹⁾
6	Prime production company	A production company that receives orders directly from clients such as production committees, video streaming platforms, and general corporations.
7	Subcontracted production company	A production company that is subcontracted to by another production company. In the film industry, the term "subcontracted production company" is used in contrast to "prime production company."
8	Production commission fee	The transaction amount (contracted order value) for film or animation production.
9	Production cost(s)	The costs incurred in producing a film or animation (production costs).

¹⁾Keiji Nakamura and Akiko Sasaki, A Clear Guide to Trends and Mechanisms in the Film Industry (Japanese), Shuwasystem-Shinsha (2021), p. 84.

Chapter 1 Survey objectives

Chapter 1 Survey purpose

Content such as anime, music, broadcast programs, films, games, and manga are assets that Japan should be proud of, but the Content Industry Revitalization Strategy (established and stated in the "Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version," Cabinet decision of June 21, 2024) states that "an environment in which creators can work sustainably with peace of mind has not yet been developed. We will develop an environment in which the creativity of our country's creators can be maximized," and "In order to develop a trading environment that maximizes the creativity of individual creators of film and anime, etc., a fact-finding survey on the trading environment for creators at film and anime production sites will be conducted from the beginning of next year (2025), following the fact-finding survey in the field of music and broadcast programs."

In light of this situation, the Japan Fair Trade Commission conducted fact-finding surveys in the transaction field related to film and anime production (hereinafter referred to respectively as the "film industry" and the "anime industry")². This report describes the results of the survey in the film industry³.

Chapter 2 Survey methodology

1 Questionnaire survey

From June to July 2025, a questionnaire survey was conducted with production companies engaged in film creation (hereinafter simply referred to as "production companies") and freelancers.

Survey subjects	Number distributed	Number of responses received	Response rate
Production company ⁴	1607	436	27.1%
Freelance ⁵	Over 2000	143	-

There are no publicly available figures for the number of film production companies, the approximate number of creators engaged in film production, or the breakdown of freelancers. However, according to the Japan Motion Picture Production Standards Association, there are 65 production companies⁶ registered with the association's staff center, and there are approximately

²The survey was conducted with the cooperation of the Japan Research Institute, Ltd. (hereinafter referred to as "JRI").

³For survey results relating to the anime industry, see the "Report on the Fact-finding Survey on the Trading Environment for Creators at Anime Production Sites" by the Japan Fair Trade Commission.

⁴Responses were requested from businesses classified under "Film and Video Production (excluding Television Program Production and Animation Production)" in the Japan Standard Industrial Classification.

⁵Responses were requested through the industry associations to which freelancers belong or through production companies that had conducted interviews.

⁶As of November 13, 2025.

250 creators⁷. In addition, according to the Audiovisual Employees Alliance of Japan⁸, there are approximately 2,200 member creators belonging to the various organizations that make up the alliance.

According to a survey by the Ministry of Economy, Trade and Industry, 76.2% of staff working at production sites in the film industry are freelancers⁹.

2 Interview survey

From January through December 2025, interview surveys were conducted with a total of 67 entities, as outlined below.

Respondent category	Number of participants
Production company	21
Freelance	22
Industry association	5
Production committees, etc. ¹⁰	14
Experts ¹¹	5
Total	67

3 Information submission form

To gather information on potentially problematic transactions between creators engaged in film and anime production and production companies, the Japan Fair Trade Commission launched an online information submission form in January 2025; by the end of November that year, it had received 219 submissions across both industries.

⁷As of October 21, 2025. This covers staff such as directors, assistant directors, screenwriters, shooting, special equipment, lighting, recording, sound, editing, scripters, art, decoration, costume design, makeup, production, acting management, production accounting, vehicles, and stills. Employment status does not matter, whether freelance or employee.

⁸An alliance made up of eight professional associations for directors, shooting, lighting, sound, art, editing, scripters, and scenarios.

⁹Ministry of Economy, Trade and Industry, "Survey on Film Industry Production Sites" (November 2019)

¹⁰For production committees, the survey covered businesses with experience investing in production committees, including film companies, distributors, and publishers. This also includes video streaming companies.

¹¹The survey targeted economists, legal scholars, lawyers, and similar specialists.

Chapter 2 Overview of the film production market and related matters

Chapter 1 Overview of the film production market

1 Transaction participants

(1) Production committees

A "production committee" is an organization formed by multiple businesses that jointly invest for the purpose of undertaking collaborative projects related to the production and exploitation of films^[12] and animation (hereinafter "anime").^[13], serving as a framework to distribute and mitigate investment risk. Its members typically include film companies, broadcasters, publishers, advertising agencies, video software distributors, music publishers, and similar entities, with each participant assuming responsibility for aspects such as film production, distribution, promotion, and exhibition. Most production committees take the legal form of civil-law partnerships (voluntary associations), with decisions made through consensus among the members. In addition, copyright and related rights in completed film works are jointly held by the committee members, with profits allocated primarily in proportion to each member's investment^[14].

(2) Video streaming companies

These companies enter into streaming license agreements with copyright holders and stream or exclusively release content on their own platforms. They may also produce and distribute original works in-house by leveraging their substantial financial resources. In the latter case, video distribution companies commission production from a prime production company.

(3) Production company

Production companies are businesses engaged in activities such as planning, screenwriting, shooting, editing, and sound production. In the film industry, depending on the contracting party, production companies are categorized as either "prime production companies" or "subcontracted production companies"^[15].

A Prime production company

A prime production company is a business that directly undertakes film production commissions from production committees, video streaming companies, and similar clients. While employees of the prime production company may participate in film production, as discussed below it is common for work to be re-commissioned to subcontracted production companies and freelancers. Specifically, they manage the entire production site, including deciding on plans and screenplays, managing budgets and schedules, and arranging and supervising staff.

¹²A film is a medium that reproduces shapes and movements by projecting images from a film continuously shot at high speed onto a projection screen using a projector. In recent years, digital cinema, which is shot with digital video cameras instead of film, has become common.

¹³"Anime" refers to creative works that depict motion by photographing large numbers of drawings or figures with slight variations frame by frame and rapidly sequencing multiple still images.

¹⁴Ministry of Economy, Trade and Industry, Report on the FY2016 Content Industry Strengthening Measures Support Project (Survey on Overseas Expansion and Financing of Video Content) (February 2017), p. 8 (Japanese)

¹⁵In this report, the term "subcontracted production company" is used as the counterpart to "prime production company."

B Subcontracted production company

As noted above, in the film industry, businesses that are re-commissioned by prime production companies to handle all or part of production are referred to as "subcontracted production companies," in contrast to prime production companies. They often specialize in a particular area of work, such as cinematography, art direction, costumes, special effects, or sound.

(4) Freelance

Japanese film production relies heavily on freelancers, and as mentioned in Chapter 1, Section 2, Item 1 above, 76.2% of production staff are freelancers.

The principal occupations involved in production are outlined below.

Producer	The individual responsible for a project who oversees everything from planning to budget and staff management and distribution negotiations.
Director/episode direction	The director is the individual responsible for the overall creative content of the work. Episode direction refers to the individual responsible for structuring the work in accordance with the director's vision, with primary responsibility for the content of the work.
Assistant director	The individual who assists the director and whose primary duties include managing the shooting schedule and coordinating with actors and staff.
Screenwriter	The individual who writes the story and dialogue for a film. In some cases, they may be involved from the planning stage. If there is an original work, this refers to the person who is primarily responsible for the adaptation.
Scripter	The individual who primarily records information related to the work, such as the filming content and problematic areas. They record the entire process from preparation through to completion of the work, not just the shooting period.
Shooting	The cameraman. They mainly shoot during the shooting period, but they also sometimes do a process called finishing, which involves correcting the brightness and saturation of the shot video.
Lighting	The individual who sets up lighting equipment, etc., to achieve the visual expression desired by the director or production.
Recording	The individual who records and processes the voices of actors and others using a pin microphone, etc.
Stage props and equipment	The individual who creates film equipment such as buildings, trees, rocks, etc. that the characters do not touch.

Art	The individual who comes up with artistic concepts and designs and creates the art sets, props, costumes, etc. to realize them.
Costumes, hair and makeup, etc.	The individual responsible for the costumes worn by the performers and their hair styling, and who creates costumes to match the era, story, characters, etc. of the work.
Editing	The individual who uses editing equipment to process and edit footage and complete a film as a video work.
Sound effects	The individual who adds sound effects, background music, etc. to the footage during the film editing stage.
Visual effects (VFX)	The individual who creates visual effects such as characters, backgrounds, explosion scenes, etc. using computer graphics (CG) and other techniques. In film production, they are involved from pre-production to post-production.

2 Commercial production workflow

(1) Creative production workflow

The process from project planning through completion of the finished animation varies depending on the work. Under the currently mainstream production committee model, a producer typically identifies an original work (such as a manga or novel) or commissions a screenwriter to develop an original story outline (plot and world setting), then proceeds with project development with the aim of producing a film adaptation. Planning is generally led by film companies, broadcasters, publishers, and similar entities, with production moving forward once a production company is commissioned to carry out the work. Also, in some cases a prime production company pitches its own projects to a production committee. However, in recent years, works based on existing source material such as novels and manga have become increasingly common.

Where an original work exists, permission to use the source material is obtained first, after which the primary use is determined. This primary use refers to usage aligned with the purpose of film production, such as theatrical release. Use for other purposes is referred to as secondary use, and includes activities such as sales of related products, overseas television sales, and licensing to streaming platforms.

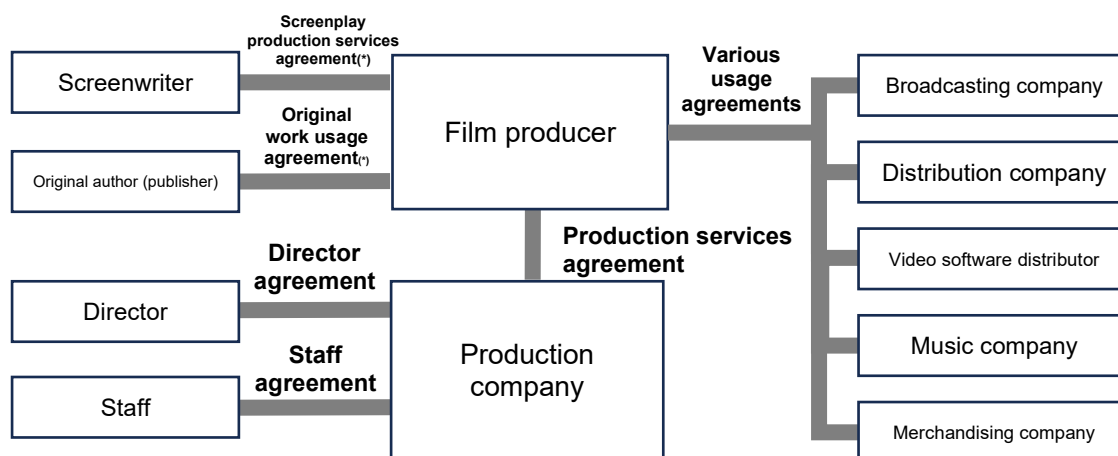
The actual film production work is carried out by a prime production company commissioned by the production committee or similar body after funding has been secured under the production committee model^[6]. Once completed, the film is delivered to the production committee or similar entity and then distributed to consumers through various media channels, including theatrical release, television broadcast, streaming by video streaming companies, and sales of DVDs and related merchandise.

(2) Various contracts

When producing a film, a range of contracts are concluded among investors such as production committees, production companies, and freelancers. A typical contract for film production under the production committee system is outlined below:

¹⁶Under the production committee model, the committee is generally a partnership without legal personality, and a managing company acts as the executing party or as the committee's representative in entering into production commission agreements with production companies.

Figure2-1 Contractual relationships in film production



(*) A screenplay production services agreement and an original work usage agreement may be concluded with the production company.

Source: Created based on Ministry of Economy, Trade and Industry and UniJapan Public Interest Foundation, "Various Contracts in the Content Business" (Japanese)

A Joint production agreement / joint business agreement

Under the production committee model, a joint production agreement or joint business agreement sets out matters such as each participant's investment amount, selection of the managing company, ownership of copyright and related rights, and profit allocation. Because most production committees are civil-law partnerships without legal personality, partnership assets such as contributed capital and copyright in the work are jointly owned by the investors. From among the investors, a managing company is appointed to lead operation of the production committee; legally, this entity is positioned as the partnership's executing member¹⁷ ¹⁸.

B Original work licensing agreement

An original work licensing agreement is a contract under which the copyright holder (the original author) or the publisher managing the author's rights grants the production committee permission to use a manga or novel as the source material for a film¹⁹.

C Production services agreement

A production services agreement is a contract under which a production committee or similar entity commissions a prime production company to deliver a finished work and sets the corresponding compensation, and is executed on a per-title basis. The agreement may include a success fee from the production committee to the prime production company.

D Commissioning subcontracted production companies and freelancers

In film production, service agreements are concluded between prime production companies

¹⁷Takao Shojima, "Contractual Practices for Anime Production - Production Committee Method Joint Production Agreements" (December 6, 2023), p. 4 <https://www.amt-law.com/asset/pdf/bulletins1_pdf/231206.pdf> (accessed August 5, 2025) The situation is thought to be similar for films.

¹⁸Copyright and Content Committee (FY2007), Copyright in Anime (2008), p. 22 (Japanese) <https://jpaa-patent.info/patents_files_old/200808/jpaapatent200808_011-047.pdf>

¹⁹Ministry of Economy, Trade and Industry and UniJapan Public Interest Foundation, "Various Contracts in the Content Business" (2018), p. 6 <https://www.unijapan.org/producer/pdf/producer_341.pdf> (Japanese)

and subcontracted production companies, as well as between production companies and freelancers, to commission deliverables and set compensation. Some freelancers referred to as "main staff," such as directors and screenwriters who play central roles in production, may also contract directly with the production committee.

Depending on the type of work, freelancers may be paid monthly during the agreement period, or they may be paid on a per-work basis, such as for directing or screenwriting.

(3) Production stages

Film production is divided into three phases: pre-production as the preparation stage; production, which focuses primarily on shooting; and post-production, which completes the film.

A Pre-production

Pre-production refers to the work that takes place before production begins, including creating a screenplay budget and schedule based on a proposal, with the screenwriter, director, and producer at the core, selecting staff and cast in each field, and scouting locations.

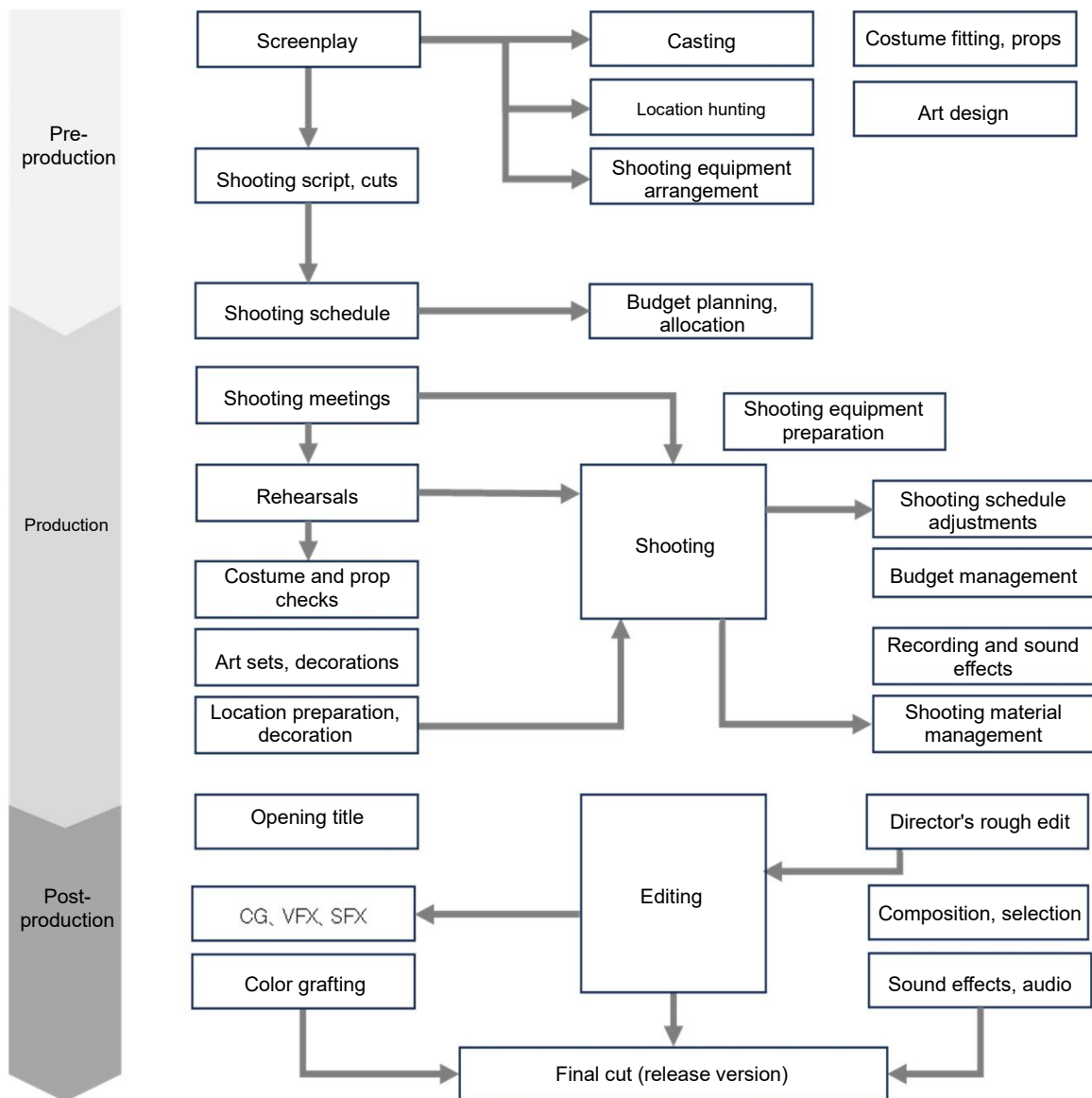
B Production

Production refers to the core work involved in filmmaking, such as rehearsals, shooting, and recording.

C Post-production

Post-production refers to the subsequent processes such as editing the filmed footage, adjusting the color tone (grading), and applying special effects such as 3DCG and VFX.

Figure2-2 Overview of the film production stages



Source: Created based on "Video Expression Techniques for Creators" by Kazuo Sasaki, Hisakazu Haneda, and Miyuki Morikawa

(4) Production methods and revenue structure

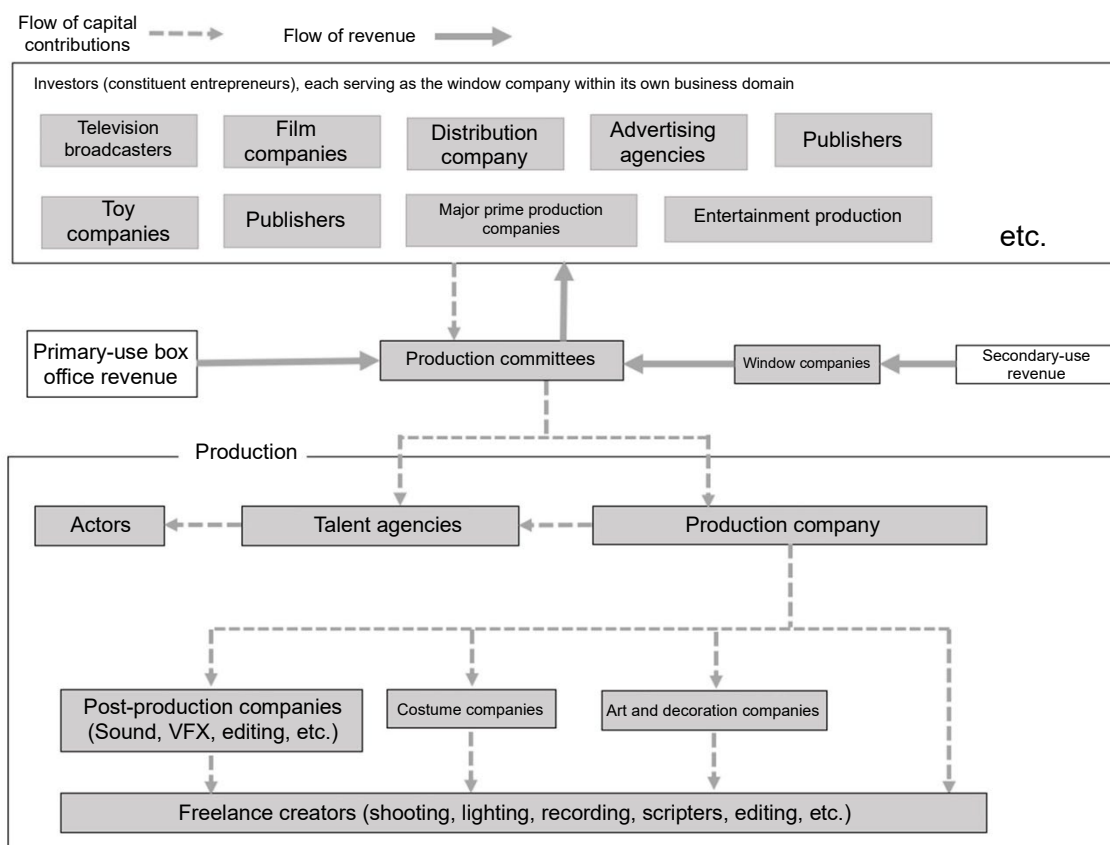
Film production involves multiple funding structures. While the production committee model is currently the most widely used, other structures also exist, including special purpose company (SPC) arrangements and crowdfunding models.

A Production committee model

The objectives of forming production committees and their principal participants are as described in Section 1(1) above.

In addition to investing in the production committee and receiving profit distributions, participating businesses may also serve as intermediaries between secondary users and the production committee, entering into secondary-use licensing agreements and collecting licensing fees. The rights to conduct such transactions are referred to as "window rights" and include television broadcast rights, streaming rights, and merchandising rights. Under the joint business agreement, each participating company deducts window fees and related charges from revenue generated through secondary use, with the remaining balance treated as production committee income²⁰. Even where an investor cannot recover its contribution through distributions from production committee income, it may in practice recoup its investment through window fee revenue and similar income streams.

Figure2-3 Example of investment and revenue structure under the production committee model



Source: Created based on p. 8 of the Ministry of Economy, Trade and Industry's "Current Status of the Industry and Action Plan (Proposed) [Film/Movies] (Secretariat Materials No. 2)" (Japanese)

²⁰Takao Ikushima, "Contractual Practices for Anime Production: Production Committee Model (Joint Production Agreements)" (2024) (Japanese)
https://www.amt-law.com/asset/res/news_2024_pdf/publication_0028631_ja_001.pdf (accessed August 5, 2025)

B Streaming service provider model

Streaming service providers, many of which are foreign-owned and possess substantial financial resources, may produce and distribute original works in addition to licensing and distributing existing titles across multiple platforms. In such cases, the streaming service provider commissions a film production company to produce the work.

C Joint investment model / single-sponsor model, etc.

Some projects have been produced either by a single company (a production company or director) fully funding film production without forming a production committee, or through investment by two or three companies, such as production companies and publishers.

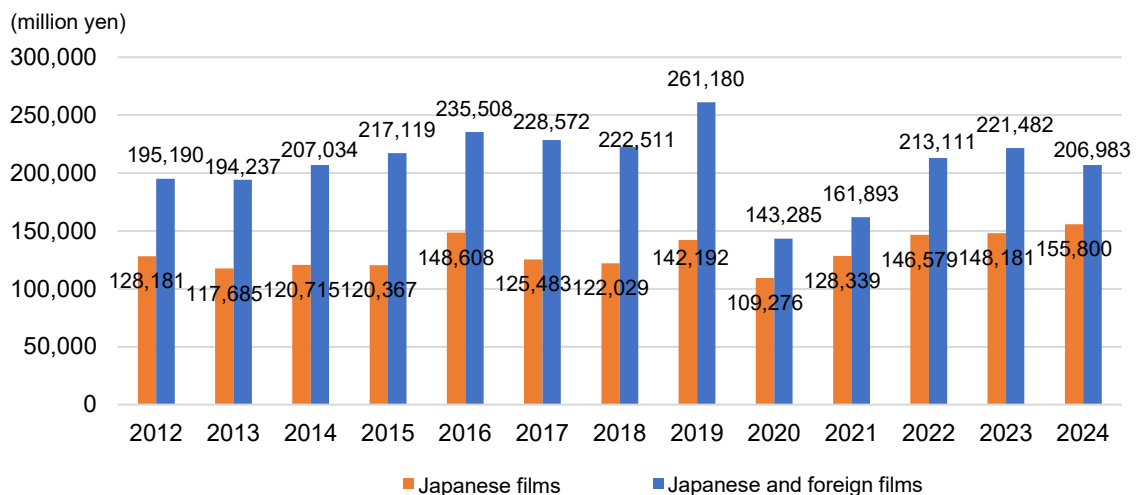
3 Market size and market trends

(1) Box office revenue trends

Although Japanese box office revenue for the film industry declined in 2020 due to the impact of the COVID-19 pandemic, it has remained at around 200 billion yen, of which 150 billion yen is for Japanese films alone.

In 2024, the top 10 Japanese films will have a combined box office revenue of approximately 70.7 billion yen, accounting for approximately 45% of the total. Of this, four were live-action films and six were anime films^[2].

Figure2-4 Box office revenue trends



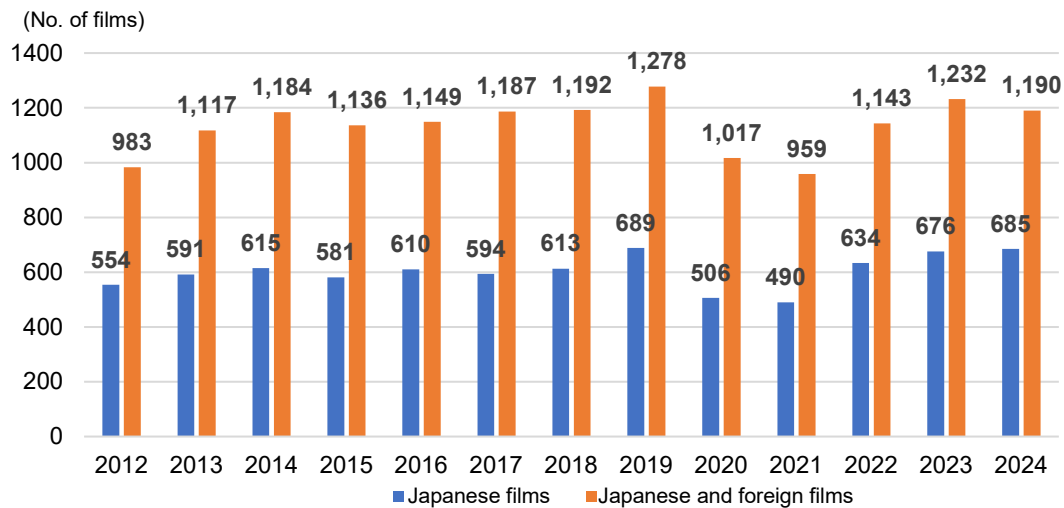
Source: Created based on the Motion Picture Producers Association of Japan, Inc.'s past data list (2012 to 2024)

²¹Motion Picture Producers Association of Japan, Inc., "National Film Overview 2024" (January 2025)
https://www.eiren.org/toukei/img/eiren_kosyu/data_2024.pdf (accessed August 10, 2025)

(2) Film release trends

The number of films released in Japan is on the rise, with 685 Japanese films released in 2024. In recent years, the number has fluctuated between approximately 600 and 700 films annually. This includes films that are released nationwide as well as films that are only shown in certain cinemas.

Figure2-5 Japanese film release trends

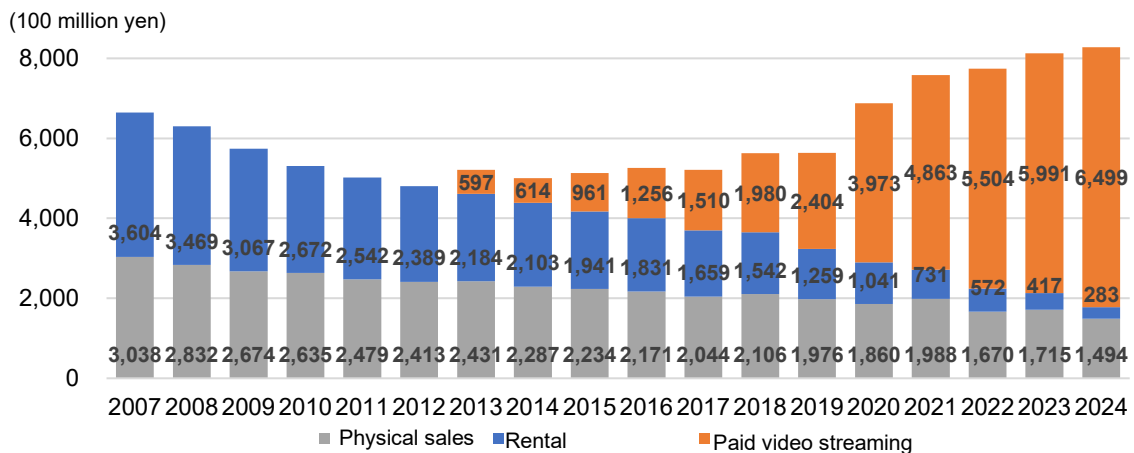


Source: Created based on the Motion Picture Producers Association of Japan, Inc.'s past data list (2012 to 2024)

(3) Growth of the video streaming services market

In recent years, paid video streaming services (subscription-based unlimited viewing, digital rentals, and paid downloads) have rapidly expanded within the home video market, with particularly strong growth.

Figure2-6 Trends in the home video market size



Source: Created based on the Japan Video Software Association's "2024 Video Software Market Size and User Trends Survey Report" (wherein content categories such as film and anime are not distinguished) (Japanese)

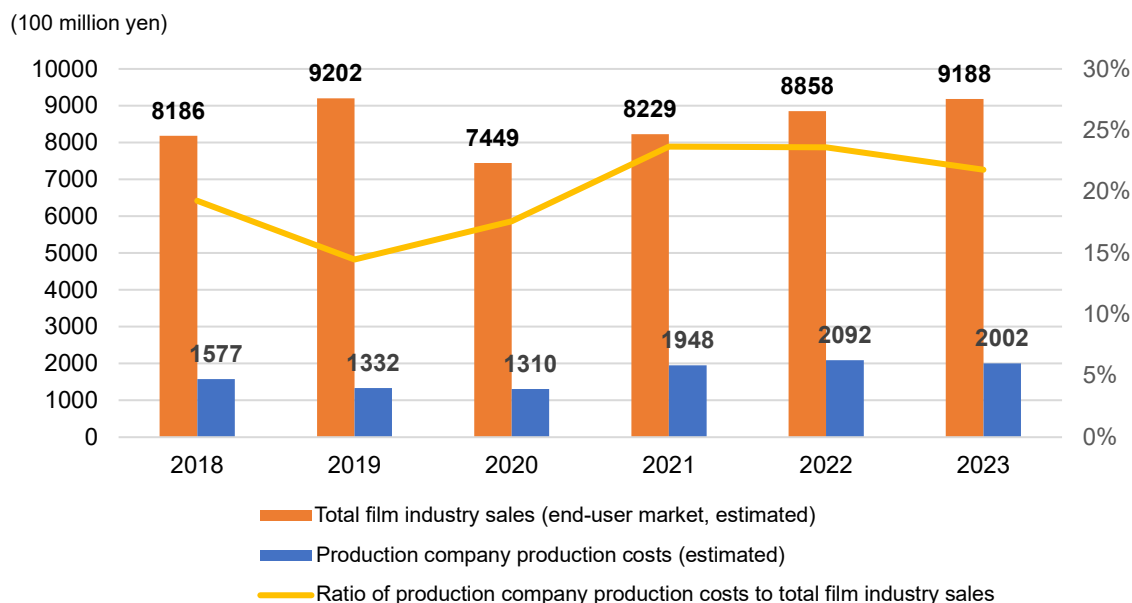
(4) Talent shortages and rising production costs

In recent years, it has been pointed out that there is a labor shortage in film production²². Furthermore, in the interview survey, it was stated that production costs are on the rise due to rising prices among other factors, with one respondent saying, "In the past, you could shoot for 30 days with 100 million yen, but now it's about 20 days due to the impact of rising prices among other factors."

(5) Share of production company sales within the market

The size of the overall film market has been expanding since 2020. The share of production companies in Japan's end-user film sales increased from 2019 to 2021, but decreased in 2023, remaining at around 20% of the total.

Figure2-7 Ratio of production company production costs to total film industry sales (end user market)²³



Source: Created based on the Ministry of Internal Affairs and Communications, "Survey Research Concerning the Actual Status of Production and Distribution of Media Software" (FY2020 to FY2025)

²²Japan Motion Picture Production Standards Association, About the Japan Motion Picture Production Standards Association <https://eiteki.org/about_us/> (accessed September 25, 2025)

²³"Total film industry sales" is the total of box office receipts from films made primarily for theatrical release and the revenues of various businesses, including those using the films for secondary use, such as television broadcasting, satellite broadcasting, CATV, video software, and PC/mobile internet distribution.

The method for calculating "production costs (estimated)" is "number of Japanese films produced x average production costs for Japanese films (estimated at 300-400 million yen)." In addition, in the interview survey, responses to the question about production commission fees indicated that approximately 200 to 300 films per year are low-budget works (several million to tens of million yen), which suggests that the "production costs (estimated)" may be excessive.

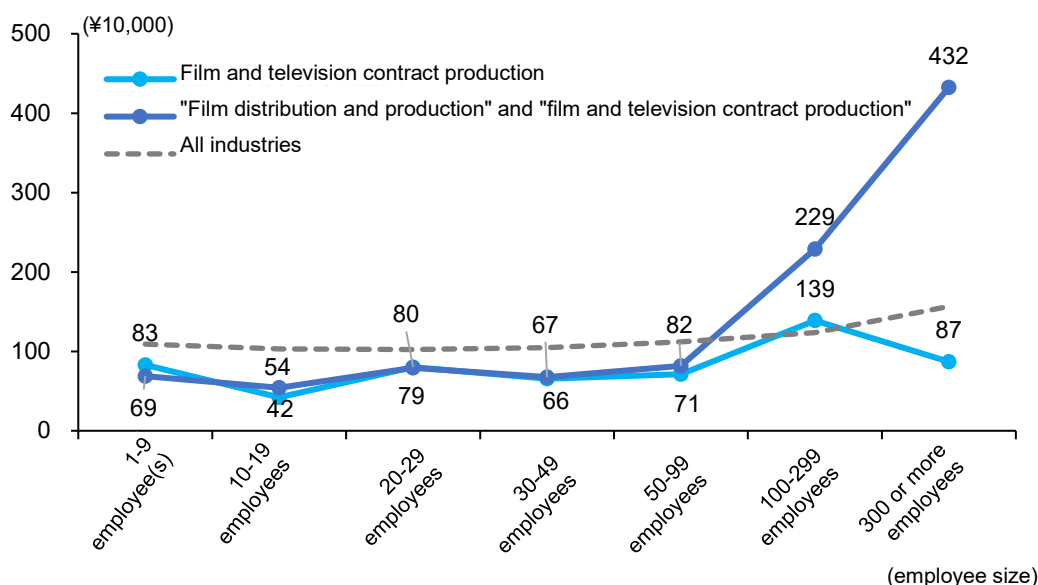
(6) Transaction Guidelines for the Sustainable Development of Film Production (Japan Motion Picture Production Standards Association Guidelines)

While the number of films produced (released) has been on the rise in recent years, it has been pointed out that production sites are generally short on manpower and budget, and that the signing of contracts is often put off. In light of these challenges in film production, the Japan Motion Picture Production Standards Association formulated the "Transaction Guidelines for the Sustainable Development of Film Production" in March 2023. The guidelines set out rules for fair transactions, and also included rules for shooting sites, such as limiting work and shooting hours and ensuring holidays, which are necessary for the fairness of film production^[24].

(7) Operating profit of film and television contract production companies by employee size

On a per-employee basis, operating profit at film and television contract production companies^[25] generally falls below the all-industry average, regardless of company size. By contrast, when "film distribution and production"^[26] is included, companies with 100-299 employees record profit levels roughly twice the all-industry average, and companies with 300 or more employees reach approximately three times that level.

Figure2-8 Operating profit per employee by company size



Source: Individual microdata analysis conducted by the Japan Research Institute based on the Ministry of Internal Affairs and Communications Economic Census for Business Activity (2021), "Visual Information Production and Distribution sector" (Japanese)

²⁴Japan Motion Picture Production Standards Association, About the Japan Motion Picture Production Standards Association <https://eiteki.org/about_us/> (accessed September 25, 2025)

²⁵The sub-category of the Japan Industrial Classification was limited to 411 (Visual information production and distribution), and companies with zero entries in [Construction and Enterprise Services] 1744_Film production and distribution services (excluding contract production) and greater than zero entries in [Construction and Enterprise Services] 1745_Film contract production services or [Construction and Enterprise Services] 1746_Television program production services were extracted. Including film production companies.

²⁶The sub-category of the Japan Industrial Classification was limited to 411 (Visual information production and distribution), and companies with entries in [Construction and Enterprise Services] 1744_Film production and distribution services (excluding contract production) and greater than zero entries in [Construction and Enterprise Services] 1745_Film contract production services or [Construction and Enterprise Services] 1746_Television program production services were extracted.

4 Content and rights

(1) Copyright

A Copyright

Copyright refers to the rights granted to creators of works and is protected under copyright law. Copyright comprises authors' moral rights and copyright (economic rights).

B Authors

For works that qualify as "cinematographic works," Article 16 of the Copyright Act defines an author as a person who has "made a creative contribution to the overall formation of the work" (the "modern author"). By contrast, authors of the original source material, screenplays, and musical works used (so-called "classical authors") are not treated as authors of the cinematographic work.

(Authors of cinematographic works)

Article 16. The author of a cinematographic work is the person who, excluding authors of novels, screenplays, music, or other works adapted or reproduced in that cinematographic work, has contributed creatively to its overall formation through roles such as production, direction, staging, cinematography, or art direction. However, this does not apply where the preceding article is applicable.

C Attribution of copyright

For "cinematographic works," Article 29 of the Copyright Act provides that "if the author of a cinematographic work ... has promised the producer of the cinematographic work that the author will participate in its production, the copyright to that cinematographic work belongs to the producer of the cinematographic work."

Subsection 4: Attribution of copyright in cinematographic works

Article 29. Copyright in a cinematographic work (excluding works to which Article 15, paragraph (1), the following paragraph, or paragraph (3) applies) belongs to the film producer where the author has undertaken to participate in production for that producer.

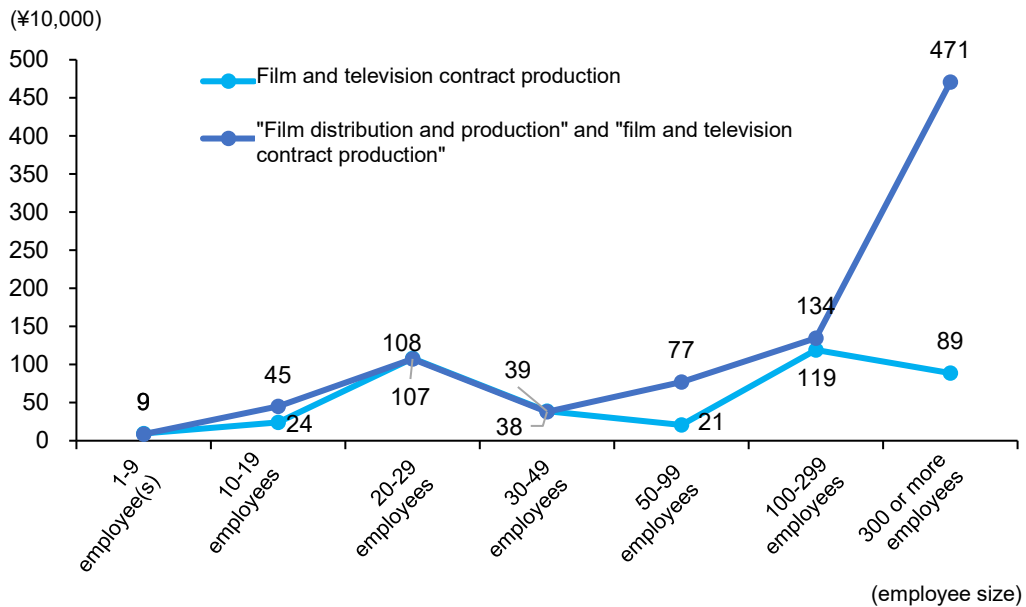
A "film producer" is defined as a person who has initiative and responsibility for the production of a cinematographic work (Copyright Act, Article 2, Paragraph (1), Item 10). Multiple court decisions address the criteria for determining who qualifies as "a person having initiative and responsibility," and, under the production committee model, which entity constitutes the "film producer" is determined based on the specific facts of each individual case.

In commercial practice, contracts commonly provide that rights vest in the commissioning production committee or are assigned from the prime production company.

(2) Revenue from copyright licensing

An examination of video copyright licensing service revenue per employee by employee size shows that, compared with film and television contract production companies, companies that also engage in "film distribution and production" record particularly high levels, especially among those with 300 or more employees. One contributing factor is that, as noted above, copyright in film works is typically vested in the production committee, and participating companies in larger production committees generate income through copyright licensing.

Figure2-9 Video copyright licensing service revenue per employee



Source: Individual microdata analysis conducted by the Japan Research Institute based on the Ministry of Internal Affairs and Communications Economic Census for Business Activity (2021), "Visual Information Production and Distribution sector" (Japanese)

Chapter 2 Actual transaction practices in film production

1 Production company

(1) Business scale and business overview

A Business scale

In the survey of production companies, as shown in Figure2-10, 93.5% of respondents²⁷ (86 companies) were small and medium-sized enterprises²⁸²⁹.

Figure2-10 Production company capital and employee counts

Capital Number of employees	10 million yen or less	Over 10 million yen up to 50 million yen	Over 50 million yen	Unknown	Total
10 employees or fewer	55	7	1	1	64
	59.8%	7.6%	1.1%	1.1%	69.6%
More than 10 and up to 100 employees	11	5	4	0	20
	12.0%	5.4%	4.3%	0%	21.7%
Over 100 employees	0	2	6	0	8
	0%	2.2%	6.5%	0.0%	8.7%
Unknown	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%
Total	66	14	11	1	92
	71.7%	15.2%	12.0%	1.1%	100.0%

Source: Created based on survey results

²⁷There were 92 valid responses in total; because response counts vary by question, the applicable base is indicated as "n=" in the figures.

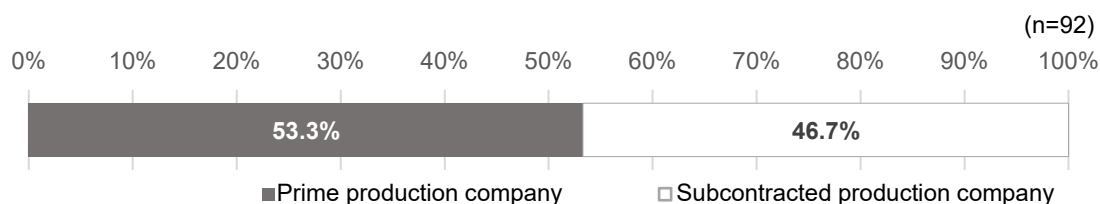
²⁸Under the Small and Medium Enterprise Basic Act, small and medium-sized enterprises in the service sector are defined as "companies with capital or total investment of 50 million yen or less, as well as companies and individuals with 100 or fewer regularly employed employees whose principal business is in the service sector."

²⁹Percentages are rounded to one decimal place, so totals may not equal exactly 100.

B Transactional position

In the survey of production companies, As shown in Figure2-11, 53.3% identified their primary role in the commercial chain as a prime production company, while 46.7% identified as subcontracted production companies.

Figure2-11 Primary position within each company's commercial chain



Source: Created based on survey results

C Comparison of business scale between prime production companies and subcontracted production companies

Responses on capital and employee counts show that subcontracted production companies are generally smaller in scale than prime production companies across both measures³⁰.

Figure2-12 Capital and employee counts (prime production companies)

Number of employees	Capital				Total
	10 million yen or less	Over 10 million yen up to 50 million yen	Over 50 million yen	Unknown	
10 employees or fewer	28 57.1%	3 6.1%	1 2.0%	1 2.0%	33 67.3%
More than 10 and up to 100 employees	5 10.2%	3 6.1%	2 4.1%	0 0.0%	10 20.4%
Over 100 employees	0 0.0%	1 2.0%	5 10.2%	0 0.0%	6 12.2%
Unknown	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Total	33 67.3%	7 14.3%	8 16.3%	1 2.0%	49 100.0%

Source: Created based on survey results

³⁰For the capital and employee thresholds applicable to commissioning businesses and small and medium-sized entrusted businesses under the SME Transactions Act, see the relevant statutory criteria Figure2-27.

Figure 2-13 Capital and employee counts (subcontracted production companies)

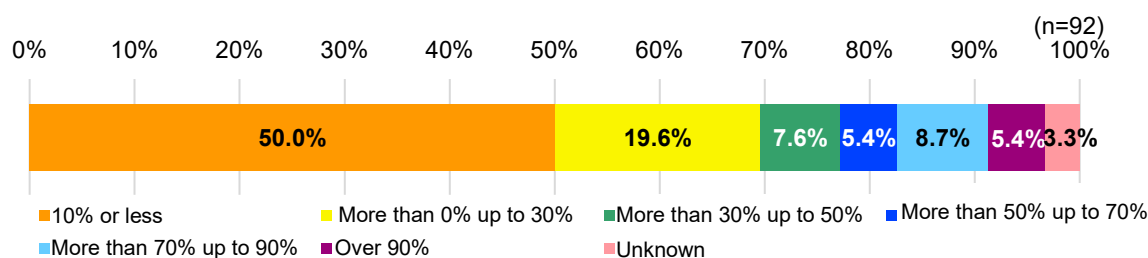
Number of employees \ Capital	Capital				Total
	10 million yen or less	Over 10 million yen up to 50 million yen	Over 50 million yen	Unknown	
10 employees or fewer	27	4	0	0	31
	62.8%	9.3%	0.0%	0.0%	72.1%
More than 10 and up to 100 employees	6	2	2	0	10
	14.0%	4.7%	4.7%	0.0%	23.3%
Over 100 employees	0	1	1	0	2
	0.0%	2.3%	2.3%	0.0%	4.7%
Unknown	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%
Total	33	7	3	0	43
	76.7%	16.3%	7.0%	0.0%	100.0%

Source: Created based on survey results

D Production company sales breakdown

In the survey of production companies, as shown in Figure2-14, 50.0% reported that revenue from film production³¹ accounted for 10% or less of total sales, while 19.6% reported that it accounted for more than 10% to 30%.

Figure2-14 Share of total sales attributable to film production over the past year



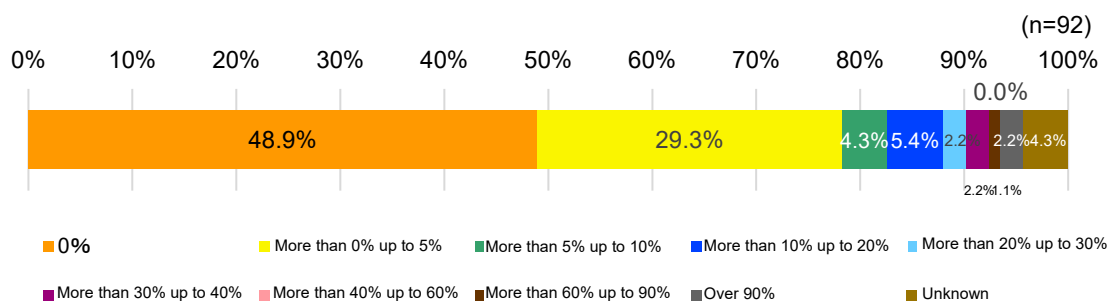
Source: Created based on survey results

The same survey also found, as shown in Figure2-15, that 48.9% of respondents reported zero revenue from use of their own copyrights³², while 29.3% reported that such revenue accounted for more than 0% and up to 5% of total sales.

³¹"Sales from film production" refers to the total revenue generated from producing films, and includes commissioned (subcontracted) work and independently produced projects, but excludes secondary-use fees, success remuneration, production royalties, and similar income.

³²For example, where a production company invests in a production committee, it may receive income from copyright exploitation in proportion to its investment share.

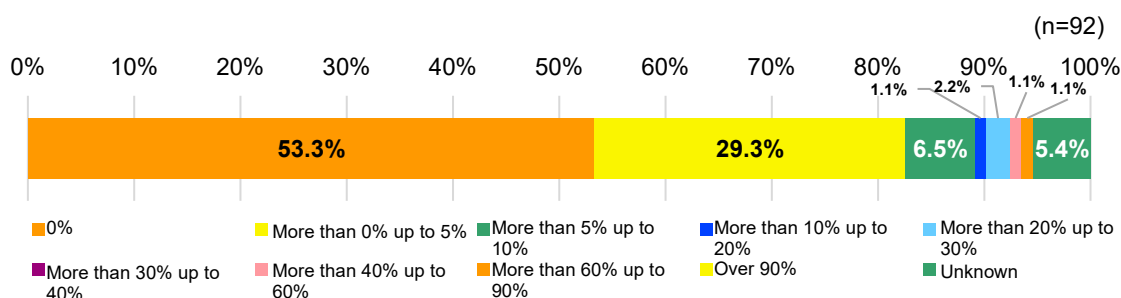
Figure2-15 Share of total sales derived from use of the company’s own copyrights over the past year



Source: Created based on survey results

The same survey further discovered, as shown in Figure2-16, that 53.3% of respondents reported zero revenue from sources other than use of their own copyrights (such as secondary-use fees, success remuneration, and production royalties), while 29.3% reported that such revenue accounted for more than 0% and up to 5% of total sales.

Figure2-16 Share of total sales over the past year derived from sources other than use of the company’s own copyrights



Source: Created based on survey results

These results indicate that many film production companies do not depend primarily on production commission fees for their sales, but they generate little or no revenue from copyright exploitation or related income streams. According to the interview survey, production companies responded that they would be commissioned to produce video works other than films, such as television dramas.

[Interview excerpt (1)]

<Production company>

- We are currently producing commercials and television videos based on our track

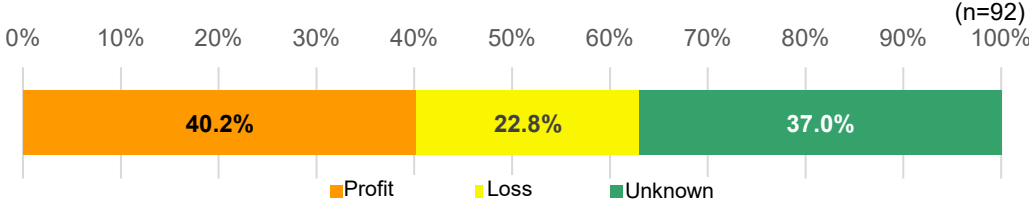
record of producing high-quality films, and are somehow managing to turn a profit overall.

- Currently, there are more drama productions than film productions. In between producing dramas, we produce one to two films a year.
- One-twenty-fifth of our sales come from film production.

E Operating profit and loss

In the survey of production companies, as shown in Figure2-17, 22.8% reported that their film production operations run at a loss when relying solely on production commission fees.

Figure2-17 Operating profit and loss from the film production business for the past year (production commission fees only)

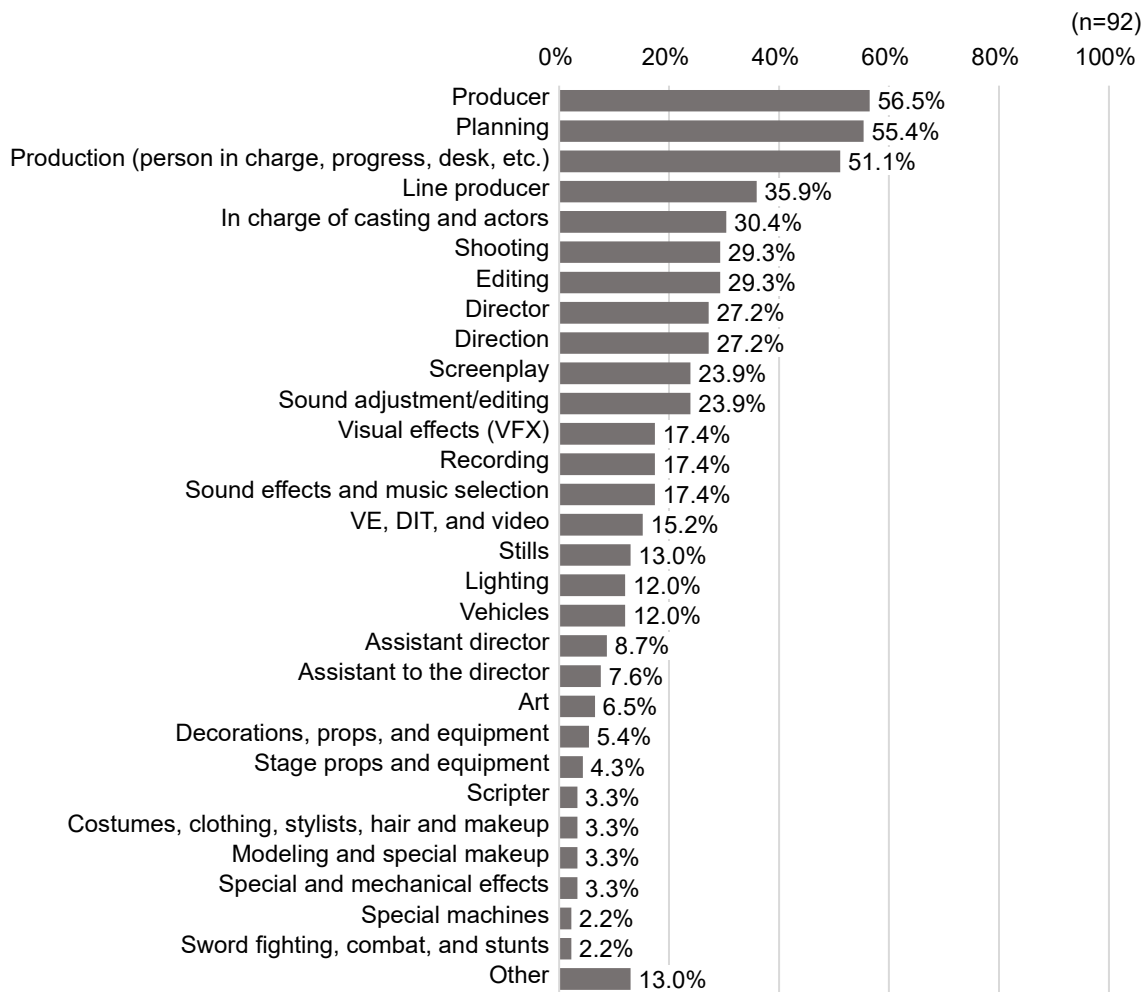


Source: Created based on survey results

F In-house production processes

When asked which stages of the anime production process they handle internally, as shown in Figure2-18, respondents most frequently cited roles such as producer, planning, and production (person in charge, progress, desk, etc.)

Figure2-18 Roles and processes handled internally by production companies over the past five years (multiple responses)³³



Source: Created based on survey results

³³The following responses were submitted in the free-text field under "Other."

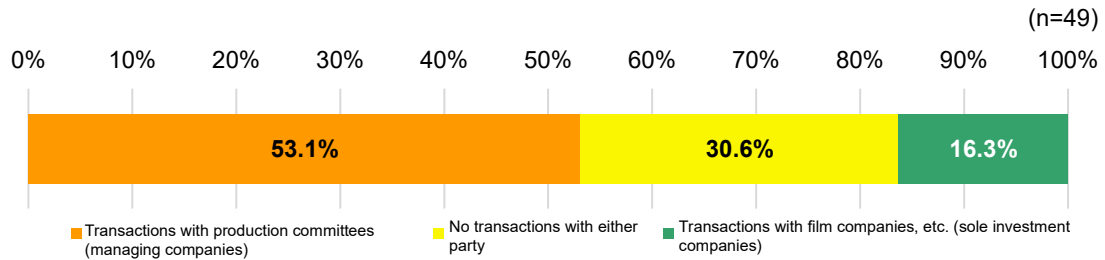
- Vessel chartering
- Production accounting
- Volunteer
- House studio
- Online editing, DCP production

(2) Transaction overview

A Transactions involving prime production companies

In the survey of prime production companies, as shown in Figure2-19, transactions with production committees accounted for the majority share of business partners, at 53.1%.

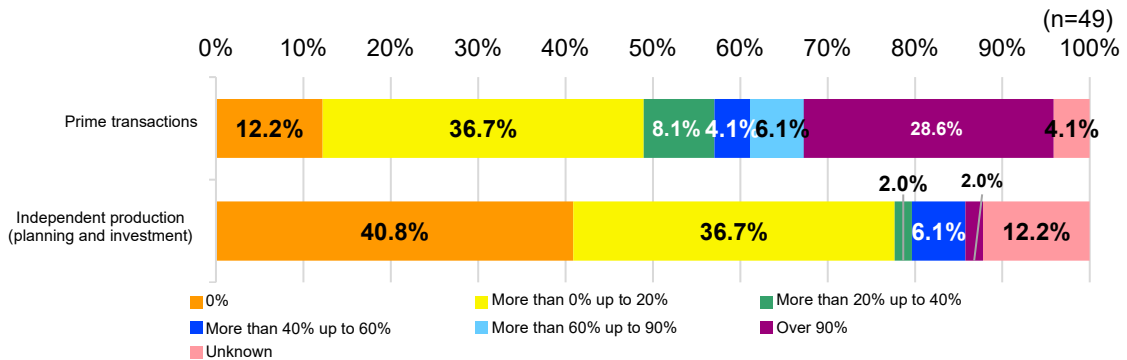
Figure2-19 Most frequent transaction business partners for prime production companies over the past five years



Source: Created based on survey results

Also, as shown in Figure2-20, the same survey found that 28.6% of prime production companies reported that more than 90% of their film production revenue came from prime transactions (including independent productions); when combined with those reporting more than 40%, the total reached 38.8%.

Figure2-20 Share of film production revenue attributable to prime transactions and independent productions over the past five years



Source: Created based on survey results

Interviews with production committees and production companies yielded the following responses. These findings indicate that transactions with production committees are critical for many prime production companies.

[Interview excerpt (2)]

<Production committee>

- When it comes to the production of live-action films, with the exception of 3DCG and editing, production is generally carried out in our own shooting studio, but at the

director's request, the production may be outsourced to a prime production company other than our own shooting studio.

- Our shooting studio lines are not always available, so in such cases we may request production from outside our own group.
- We often do business with familiar prime production companies. As a result, the number of prime production companies we work with is limited to a certain number. Each of our producers has ongoing relationships with three prime production companies, or up to five or six.

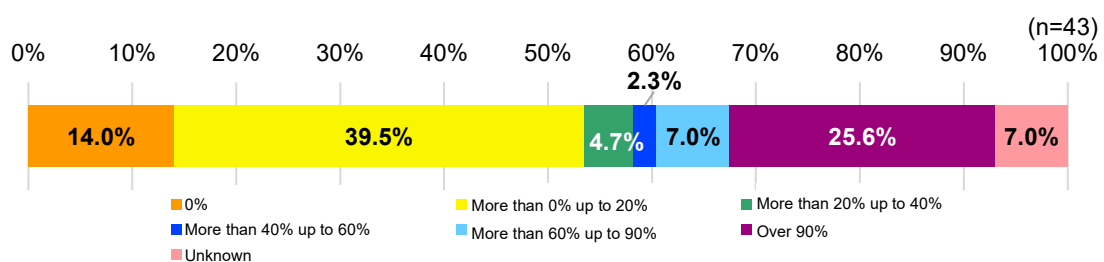
<Prime production company>

- The production committee's managing company will be the party ordering the production. If the film is based on a television broadcaster's work, the production is commissioned by the television station, which is the managing company.
- We produce two to three films a year, but most of their current films are produced using the production committee model, with production commissioned by a managing company. As a limited exception, small-scale productions such as independent productions may not be produced using the production committee model.

B Transactions involving subcontracted production companies

In a survey of subcontracting production companies, as shown in Figure2-21, the percentage of subcontracting production companies that responded that sales from transactions with production companies (subcontracting transactions) account for over 90% of their film production sales was 25.6%, and when the percentage of those that responded that it was between 60% and 90% was added, the total was 32.6%.

Figure2-21 Share of film production revenue derived from subcontracting transactions over the past five years



Source: Created based on survey results

[Interview excerpt (3)]

<Subcontracted production company>

- Recently, post-production work has mainly been contracted out to the prime production company. They are involved in the production of just under 30 films per year. Of these, five to ten are commercial film post-production projects contracted by

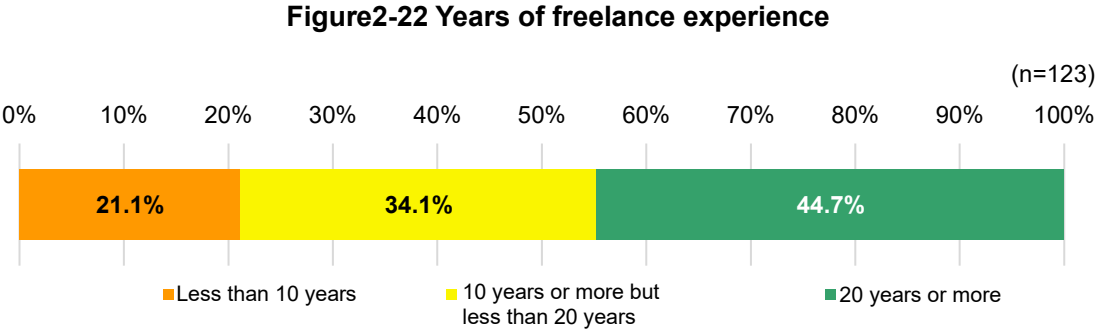
the prime production company, and the remaining 20 or so include short films and other projects that have received subsidies. In either case, they are essentially involved in the post-production part of filmmaking. Business partners vary depending on the project. While diverse, there are certain prime production companies, directors, and cameramen that they have long-term relationships with.

- Because new requests frequently come in from other production companies that hear about our reputation as a specialized studio, we have not settled into a fixed set of business partners.
- All of our clients are production companies, and we never receive orders from production committees.

2 Freelance

(1) Respondent attributes, etc.

In a survey of freelance creators, as shown in Figure2-22, 21.1% of respondents³⁴ reported less than 10 years of freelance experience, 34.1% reported 10 years or more but less than 20 years, and 44.7% reported 20 years or more³⁵.



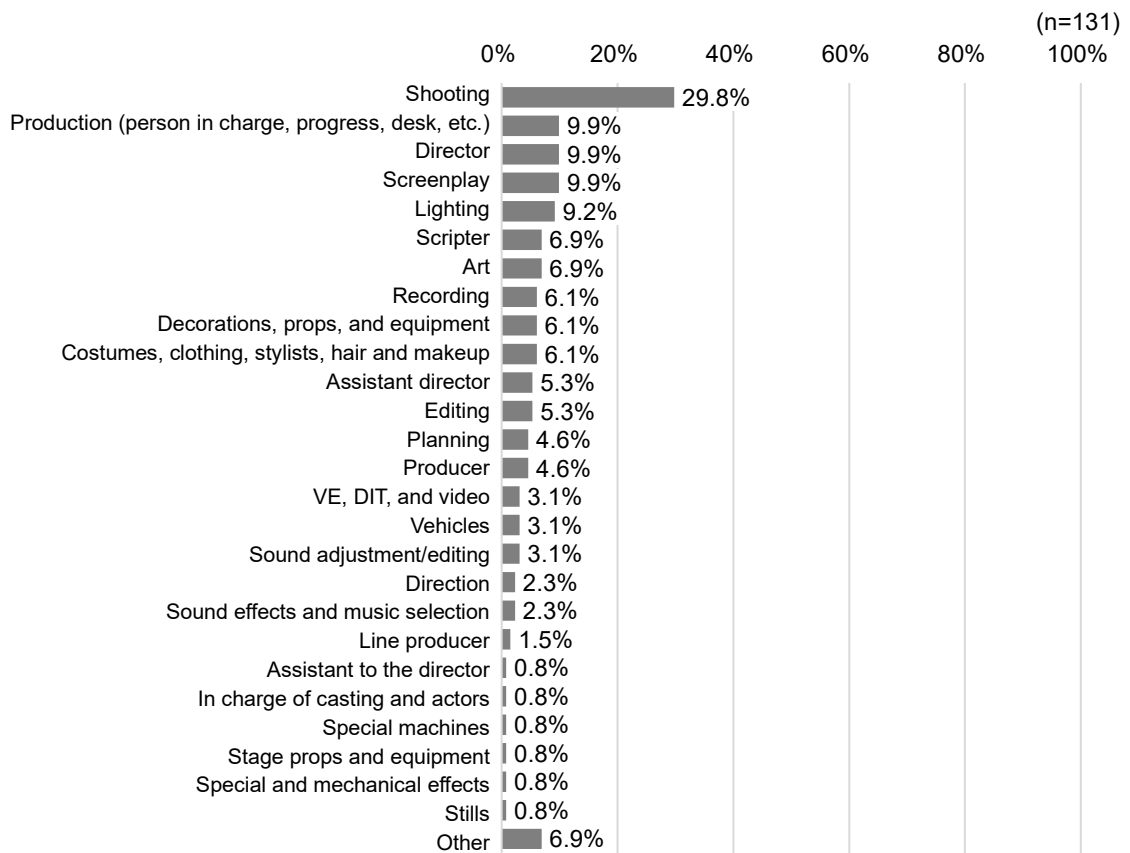
Source: Created based on survey results

In addition, when asked which sections freelancers are responsible for, the most common answer was cinematography, followed by production (person in charge, progress, desk, etc.), directing, and screenwriting.

³⁴ There were 123 valid responses to the freelance survey; because of the nature of the questionnaire, the valid sample size differs by question and is shown as "n=" in each figure.

³⁵According to the "Report on the Fact-finding Survey on the Trading Environment for Creators at Anime Production Sites" by the Japan Fair Trade Commission (December 2025), 37.5% of freelancers in the anime industry have been working for less than 10 years, 36.1% have been working for 10 years or more but less than 20 years, and 26.4% have been working for more than 20 years, meaning that there tends to be a higher proportion of people with fewer years of experience than in the film industry.

Figure2-23 Sections handled over the past three years (multiple responses)³⁶



Source: Created based on survey results

(2) Transaction overview

A Business partners

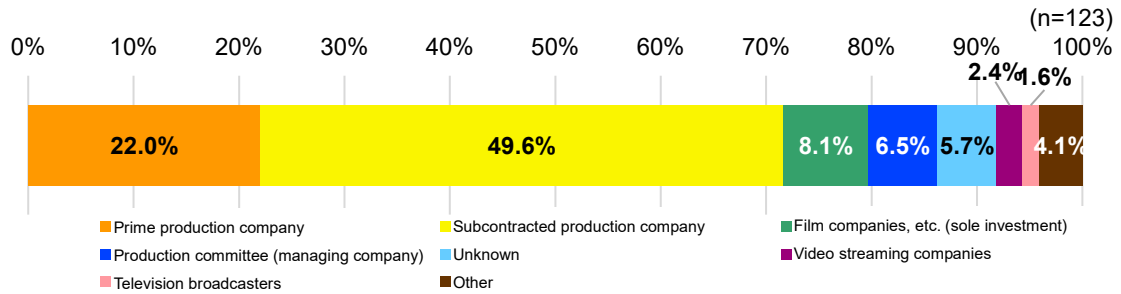
In a survey of freelancers, as shown in Figure 2 -24, 49.6% identified subcontracted production companies as their primary business partner.

According to the interview survey, directors and screenwriters sometimes enter into agreements directly with the production committee (managing company), but some respondents indicated that they often deal with subcontracted production companies such as art and decoration companies for certain jobs, such as props, stage sets, and costumes.

³⁶The following responses were submitted in the free-text field under "Other."

- Painting, production accounting, subtitle translation, lyricist, technical producer, equipment rental shop, clearance, intimacy coordinator

Figure2-24 Most frequent business partners for freelancers over the past three years³⁷



Source: Created based on survey results

[Interview excerpt (4)]

<Production company>

- Our company has approximately 55 employees, of which around 20 to 30 are freelancers. Freelancers are asked to work on a task-by-task basis for each project.

<Freelancers>

- Chief assistant directors are approached by producers and others. The chief assistant director assembles the second assistant director and below as their subordinates. The contract is made with the prime production company and is generally in writing. (Assistant director)
- 80% of business partners are decoration companies, but if the request comes via an art designer, the business partner will be an art company, or if the request comes directly from a producer at a prime production company, the business partner will be the prime production company, so the business partner will vary depending on the client. (Props)
- Many of the contracted parties are art companies, but some are prime production companies. (Stylist)

B Transaction dependence

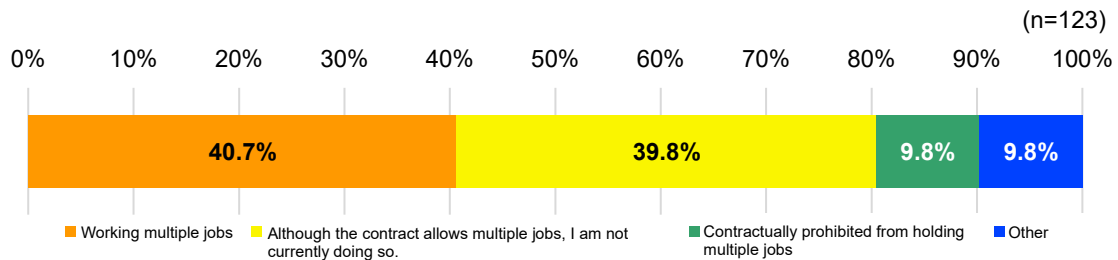
In a survey of freelancers, as shown in Figure2-25, 40.7% reported holding multiple jobs, indicating that a significant number of freelancers rely on concurrent engagements. On the

³⁷The following responses were submitted in the free-text field under "Other."

- Art and decoration companies
- Chinese companies · Japanese companies with Chinese capital
- Outsourcing work to a company that has received an order from a production company
- Costume companies

other hand, about 50% reported either not holding multiple jobs despite being contractually permitted to do so, or being contractually prohibited from holding multiple jobs.

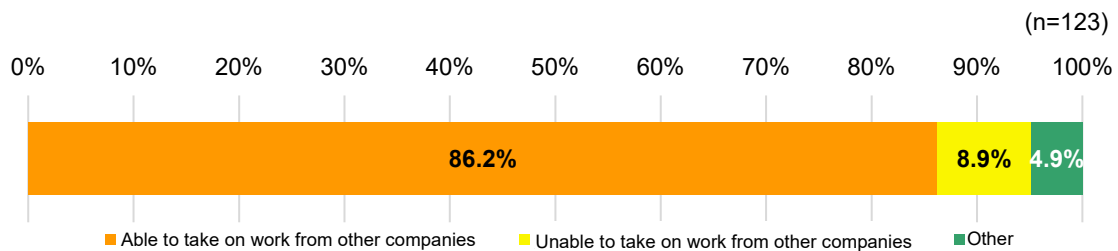
Figure2-25 Freelance multiple-job status³⁸



Source: Created based on survey results

Regarding freelancers' dependence on business partners, as shown in Figure2-26, 86.2% reported that they are able to take on work from another company with little gap after completing a project, representing a clear majority.

Figure2-26 Freelancers' dependence on business partners³⁹



Source: Created based on survey results

³⁸The following responses were submitted in the free-text field under "Other."

- Depending on the business partner, I do multiple jobs when possible.
- My job is part-time and I can't work multiple jobs.
- I can't work multiple jobs during the shooting period, but editing work on the previous project may occur during the preparation period, and preparation for the next project may begin during the editing period. However, I try to accept work in a way that avoids overlapping as much as possible. That is because I want to work calmly.
- I can't work multiple jobs because my job requires me to go to the field.
- Although the contract does not prohibit working multiple jobs, it is physically impossible as the shooting locations are different.
- I don't have multiple jobs, but there is some overlap between the preparation period and the finishing period.

³⁹The following responses were submitted in the free-text field under "Other."

- I won't take on work because it's physically demanding.
- I could do it if it's a commitment starting from preparation. I can't do it if it's from shooting.
- Due to the nature of the relationship, it is not advisable to take on work from other companies.
- One-year contract
- I can't say either way
- Depends on timing

[Interview excerpt (5)]

<Freelancers>

- Screenwriters can take on multiple projects simultaneously and work on them in parallel. In this case, multiple contracts will be active simultaneously, but this poses no issues either contractually or operationally. (Screenwriter)

These results suggest that many freelancers have the potential to work with multiple business partners without depending on a single one. However, the free-text field contained multiple responses such as "While the contract doesn't explicitly prohibit taking on other work, it's physically impossible because the shoot locations are different" and "There is some overlap between the preparation period and the finishing period." This indicates that taking on other work during the shooting period may be practically difficult in some cases.

Chapter 3 Applicability of the Anti-Monopoly Act etc.

1 Applicability of the Anti-Monopoly Act

Transactional relationships among parties vary, and classification depends on the actual circumstances rather than contract titles; for business-to-business transactions not subject to labor laws, the Anti-Monopoly Act, the SME Transactions Act, and the Act on the Improvement of Transactions between Freelancers and Enterprises may apply.

Where conduct violates both the Act on the Improvement of Transactions between Freelancers and Enterprises and the Anti-Monopoly Act, the former generally takes precedence. Where conduct violates both the Act on the Improvement of Transactions between Freelancers and Enterprises and the SME Transactions Act, the former likewise applies as the general rule^[40]. If the Act on the Improvement of Transactions between Freelancers and Enterprises does not apply and the conduct violates both the SME Transactions Act and the Anti-Monopoly Act, the SME Transactions Act applies as a general rule^[41].

Figure2-27 Scope of application under the SME Transactions Act

Content of the business transaction	Capital and employee thresholds	
	Entrusting business operator	Small and medium-sized entrusted business operators (including individuals)
Commissioning of information deliverables ^[42] and outsourcing of service provision ^[43]	Capital exceeding 50 million yen	Capital of 50 million yen or less
	Capital exceeding 10 million yen and up to 50 million yen	Capital of 10 million yen or less
	More than 100 regular employees	100 or fewer regular employees

⁴⁰Japan Fair Trade Commission, "Approach to the Applicability of the Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators in Relation to the Anti-Monopoly Act and the Subcontract Transactions Act" (May 2024) (Japanese)

⁴¹Japan Fair Trade Commission, "Summary of Opinions on the Draft Guidelines under the Anti-Monopoly Act Concerning Abuse of a Superior Bargaining Position, and the Commission's Responses" (November 2010) (Japanese)

⁴²Excludes program development.

⁴³Excludes transportation, warehouse storage of goods, and information processing.

As shown in Figure2-27, while constituent members of production committees are often large enterprises such as film companies, broadcasters, publishers, and advertising agencies. As shown in Figure2-10, 93.5% of production companies are small and medium-sized enterprises. Accordingly, except where a production company exceeds a certain scale, transactions commissioned to production companies in film production are likely in most cases to fall within the scope of the SME Transactions Act.

As noted above, even where the SME Transactions Act does not apply, the Anti-Monopoly Act may still apply.

2 Characteristics, etc. of film production transactions

(1) Characteristics of film production transactions

Film production is a creative activity, and the final deliverable is not yet determined at the start of pre-production. As stated in Section 1.2(3)(a) above, the screenwriter, director, and producer work together to create a screenplay based on a proposal, and then solidify the image of the film by selecting the cast and scouting locations. Staff from multiple professions are involved in shooting (the production process), and in the post-production process, specialized studios and freelancers, such as those in visual effects, are responsible for specialized tasks in a division of labor.

During the production process, schedules may need to be changed due to bad weather or illness or injury to cast or staff. In such cases, additional costs may be incurred, such as securing shooting locations, adjusting cast schedules, and additional rental fees for shooting equipment. In addition to those directly engaged in production, there are numerous stakeholders, including production committee members as investors and original authors, and input from these parties from multiple perspectives can require screenplay changes during shooting or rework during editing.

As film production is characterized as a creative activity, it is often difficult to calculate the exact amount of work required, the number of personnel required, and the length of the work, especially when the screenplay has not yet been finalized before or after the pre-production stage when production is entrusted to the prime production company. Additionally, unpredictable factors such as bad weather can affect production schedules, which can directly lead to increased production budgets.

In addition to the traditional types of films that have been produced, such as independent films where directors raise the funds themselves, films that are produced primarily with self-financed funds by production companies without capital participation from major film companies, and regional films that are locally rooted and produced with investment from local businesses and local governments, many films with low to medium budgets are also being produced in recent years as digitalization advances, including films shot on smartphones. On the other hand, there are also works with relatively high budgets, such as those that make extensive use of visual effects (VFX). As such, film budgets and production locations vary widely, and it is thought that many films are produced within the constraints of low budgets.

(2) Relationships among transaction parties

A Multi-layered outsourcing and division of labor

As shown above in Section 2 (4)Figure2-3, film production contracting is both multi-layered and organized through a division of labor among specialized studios and freelancers, with freelancers playing a substantial role alongside corporate entities.

In general, whether one party holds a superior bargaining position cannot be determined without considering the specific circumstances of each transaction, and the same applies to film production transactions. In the interview survey, production committees responded that production outsourcing fees are rising, and that in cases of force majeure, etc., the production committee bears additional costs. Production companies responded that due to labor shortages, labor costs, especially for assistant staff, are on the rise, and that equipment costs are also rising, causing production costs to increase; they also responded that while production outsourcing fees are rising in the long term, they are not enough to keep up with the rise in production costs, leaving production companies caught in the middle. Freelancers responded that due to labor shortages, the working environment for young freelance assistants in many occupations is improving, but that it remains tough for staff in other occupations, and in particular for staff at the technician class.

Given this multi-layered structure, it is not appropriate to uniformly assume that transactional disadvantages are simply passed from stronger ordering parties to weaker contractors; each transaction must be assessed on its own facts.

B Bargaining power

While production committee members are often large enterprises such as film companies, broadcasters, publishers, and advertising agencies, as shown in Figure2-10, 71.7% of production companies have capital of 10 million yen or less, small production companies frequently find themselves at a bargaining disadvantage relative to members of production committees, which are large corporations. On the other hand, in the case of small-scale, low-budget productions, the investing production commissioners may also be small businesses, and whether the production company has weaker bargaining power may differ depending on the transaction.

In transactions between production committees or production companies and freelance creators, freelancers often have weaker bargaining power; however, there is wide variation by individual, as there may be cases where a screenwriter enters into a management contract with a major talent agency and leaves the negotiations to them, or there may be cases where assistants in particular have sufficient bargaining power due to the industry-wide labor shortage relative to production demand.

C Management dependency

According to the survey of production companies, as shown in Figure2-14, 50.0% reported that film production accounts for 10% or less of their total revenue, while 19.6% reported that it accounts for between 10% to 30%. This suggests that many production companies are not highly dependent on film production transactions in their business operations^[44]. The background to this is that film production commission fees often yield gross profit margins of 10% or less^[45], making profitability difficult to achieve. Consequently, many production companies are likely seeking to stabilize their business operations by also taking on other video production work that complements filmmaking skills, such as television dramas, commercials, and original content for streaming services.

D Other

As shown above in (1), a feature of film production transactions is that the image of the film cannot be shared between the parties until the screenplay is completed. If the contract is awarded to a production company before the screenplay is completed, it is difficult to estimate the budget based on the number of filming hours, the type and number of staff required, etc., and therefore the contract will likely be awarded based on the client's budget. Therefore, film production deals have a fluid aspect, as specific terms of the deal may be finalized as the production process progresses, and additional production costs may be required due to unforeseen circumstances. On the other hand, production companies are generally obligated under their contracts to guarantee completion of the work within the production commission fees, and it is considered difficult for them to suspend production or withdraw from the contract after producing a substantial deliverable just because they encounter difficulties in negotiating the terms of the transaction or a situation arises that requires additional production costs.

⁴⁴According to the "Report on the Fact-finding Survey on the Trading Environment for Creators at Anime Production Sites" by the Japan Fair Trade Commission (December 2025), a survey of anime production companies showed that 53.7% responded that anime production accounts for over 90% of their total revenue, and 77.3% said that it accounts for over 50%.

⁴⁵By comparison, small and medium-sized enterprises in the broader video, audio, and publishing-related sectors are reported to have average gross margins of 42.0%, versus 24.5% for SMEs across all industries. Among all industries, the figure for small and medium-sized enterprises is 24.5%. ("Financial indicators for small and medium-sized enterprises based on the 2015 Basic Survey on the Status of Small and Medium-sized Enterprises," compiled by the Japan Small and Medium-sized Enterprise Consultants Association, Doyukan, p. 228 (2017))

Chapter 3 Survey results and evaluation by transaction stage (actual transaction practices and promotion of fair competition)

Chapter 1 Transactions between production committees and prime production companies

1 Ordering stage

(1) Status of written clarification of transaction terms

A Actual conditions

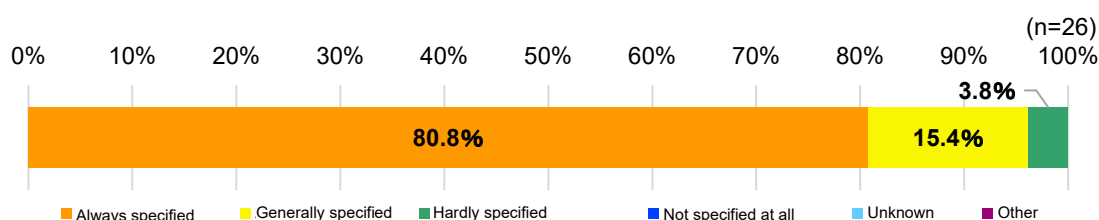
(A) Status of written clarification of transaction terms

In the survey of prime production companies⁴⁶, approximately 96% reported that transaction terms with production committees over the past five years⁴⁷ were documented⁴⁸; as shown in Figure3-1, 80.8% of respondents stated that they are always specified and 15.4% stating they are generally specified.

In addition, as shown in Figure3-2, a review of specified transaction terms shows high disclosure rates for items listed under Article 4 of the SME Transactions Act, including scope of work (96.9%), production commission fees (93.8%), delivery timing and conditions (90.6%), payment timing for production commission fees (84.4%), and handling of copyright (property rights), including transfer or attribution (81.3%).

Interviews likewise indicate that most prime production companies receive clearly stated transaction terms in written form when contracting with production committees.

Figure3-1 Status of written clarification of transaction terms in contracts with production committees over the past five years



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

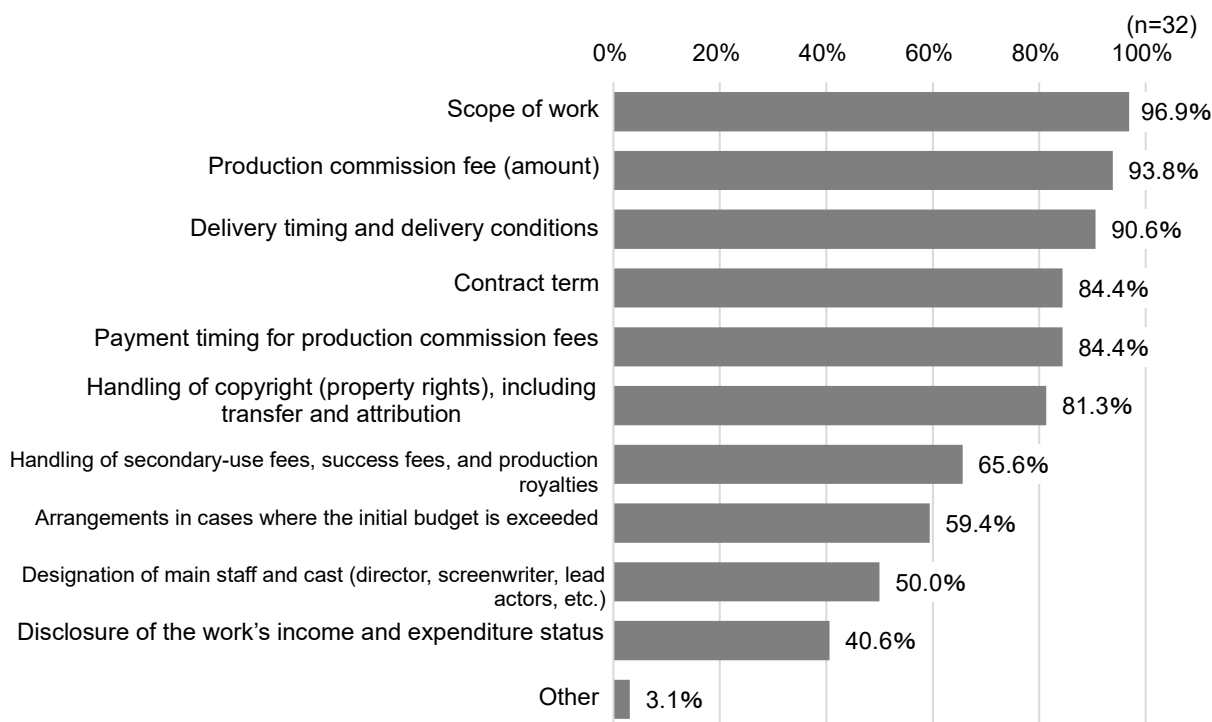
⁴⁶This reflects aggregated responses from survey participants who identified themselves as prime production companies. The same applies to Section 3 below.

⁴⁷Film production transactions typically span two to three years; accordingly, the survey of production companies generally requested responses covering transactions over the most recent five fiscal years.

According to the survey of prime production companies, 43% reported between one and five transactions with production committees over the past five fiscal years, while 4% reported between six and ten.

⁴⁸"Written materials, etc." refers to documents such as contracts and purchase orders, as well as electronic communications that identify the recipient (including email, SNS, and chat tools), or delivery of electronic files via media such as USB drives or CD-Rs.

Figure3-2 Items specified as transaction terms over the past five years (multiple responses)⁴⁹



Source: Created based on survey results

[Interview excerpt (6)]

<Production committee>

- Our understanding is that 100% of contracts have been delivered.
- We are currently requesting and negotiating with prime production companies to have them follow the contract template set out in the Japan Motion Picture Production Standards Association Guidelines.

<Prime production company>

- Since the production commission fee for a film can range from tens of millions to hundreds of millions of yen, production committees believe that they cannot pay unless a contract is signed, and they rarely enter into a contract without one.
- We present the details of our original project, including an estimate, and if the project is approved, we sign a contract with the film company. In the film industry, unlike the television industry, contracts are signed.

⁴⁹No specific entries were provided in the free-response field under "Other."

- | |
|---|
| <ul style="list-style-type: none">- We sign contracts with the managing company of the production committee.- The contract between the production committee and the prime production company is always in writing. |
|---|

(B) Timing of written clarification of transaction terms

In a survey of prime production companies, as shown in Figure3-3, the reported that, regarding the actual timing of when, over the past five years, production committees specify transaction terms and conditions to prime production companies in writing, etc., approximately 12% of respondents answered that "it is often when the order is placed," while over 80% of respondents answered that "it is often between the time the order is placed and the start of film production" (41.2%), "it is often between the time animation production starts and the delivery of the film" (35.3%), or "it is often after the film is delivered" (8.8%).

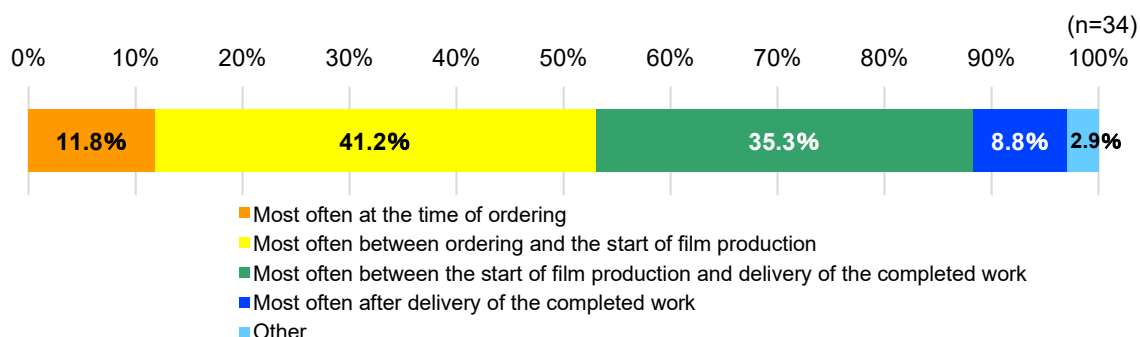
As to the preferred timing, as shown in Figure3-4, approximately 50% indicated that terms should be specified at the time of ordering, and roughly 40% indicated that they should be specified between ordering and commencement of production.

In the interview survey, production committees responded that "we may not be able to sign a contract before production begins because we have not yet completed the necessary negotiations, such as deciding on the interest rate for the success fee," and "after signing the contract, if the screenplay is completed, we will carefully examine it based on that, and if there are no problems, we will sign the contract before filming begins."

In addition, prime production companies responded that "in many cases, we are unable to sign a contract by the day before shooting," and "since the contract is not created for some time after the agreement is made, it is almost like a verbal agreement until then, which makes it difficult to feel at ease, but unless we move forward with planning and assemble a staff, we won't be able to finish production on time." Under these circumstances, although transaction terms are generally documented in writing, the proportion specified at the point of ordering appears to remain relatively low.

On the other hand, trade associations responded that "at the ordering stage, the content (screenplay) has not been decided and the production commission fees and schedule cannot be finalized in detail, so most of the matters that should be included in the document are still undecided, which causes the document to be delivered late." They also responded that if the production commission fees are agreed upon before the screenplay is finalized, the prime production company will have to bear any shortfall in the actual production costs, and therefore "under current business practices, it cannot be said that delivering the document earlier is always a good thing." In this regard, prime production companies responded that "because it takes time to negotiate contracts, we try to first decide on the general framework in the purchase order," and "if the contract cannot be completed in time, there are cases where a separate memorandum is signed to cover partial payment of the production commission fee." Trade associations also responded that "it would be extremely troublesome for prime production companies to have to quickly sign contracts with terms that are disadvantageous to them, so we would like matters that cannot be determined at the time of ordering to be left undetermined, such as a minimum production commission fee of XX yen (to be discussed separately after the screenplay is completed). Alternatively, one way things could work is to separate the contract for the planning stage from the contract for subsequent production."

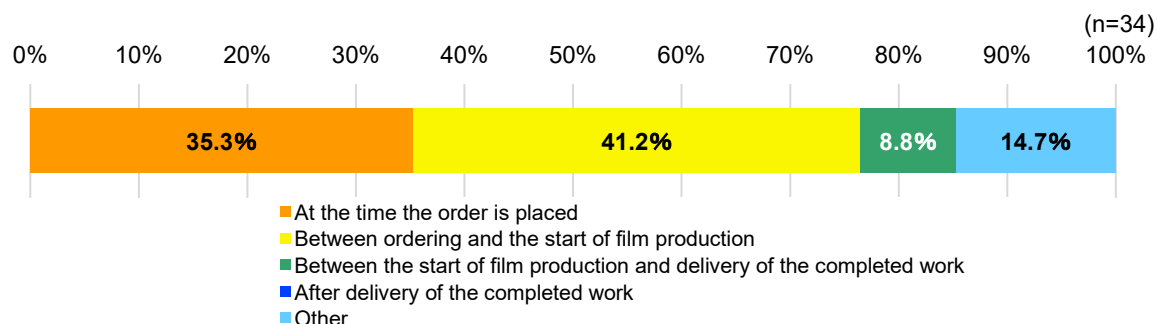
Figure3-3 Timing of specification of transaction terms in writing, etc. over the past three years⁵⁰



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

Figure3-4 Desirable timing for specifying transaction terms



Source: Created based on survey results

[Interview excerpt (7)]

<Production committee>

- In contracting with prime production companies, negotiations sometimes remain unresolved, such as the rate of success fees, making it impossible in some cases to execute the contract before production begins.
- Because part of the remuneration is paid to the prime production company before filming starts, contracts must be executed in advance; if the script is complete, it can be reviewed on that basis and, if there are no issues, the contract can be signed before filming starts.

<Prime production company>

◆Timing of written clarification of transaction terms

⁵⁰No specific entries were provided in the free-response field under "Other."

- In cases where the legal department of the managing company is unable to check the contract in time, a separate memorandum may be signed to cover partial payment of the production commission fee.
- Our company signs production contracts before shooting begins. Contracts are rarely signed after shooting. If additional costs arise later, memoranda of understanding are signed as necessary.
- Contracts are created, but not necessarily before production begins. With some companies, we sign contracts before making payments. However, in most cases, once the actors have been secured and the project is decided, and once it is expected that the internal procedures of the managing company will be completed, preparations such as securing staff will begin, and after each internal procedure of the production committee has been completed, a production services agreement will be received from the production committee. Because it takes time to negotiate contracts, we first decide on the general framework in a purchase order, and in such cases the managing company often makes the down payment on its own.
- The contract is often signed before the production committee is formed. We negotiate the production commission fee with the managing company at the planning stage and sign a contract with that company. On the other hand, contracts are often delivered just before filming begins. Since the contract is not created for some time after the agreement is made, it is almost like a verbal agreement until then, which makes it difficult to feel at ease, but unless we move forward with planning and assemble a staff, we won't be able to finish production on time. As a result, the prime production company has to advance the production costs and proceed with the production, which places a considerable burden on the prime production company.
- Delays in signing contracts are generally the responsibility of the commissioner. This is because, unless the conditions are extremely poor, there is no benefit for the commissioner to delay signing the contract.

◆Preferred timing for written specification of transaction terms

- The aim is to have the contract signed the day before shooting, but the industry as a whole still has a relaxed attitude, and in many cases it is not possible to sign the contract by the day before shooting. However, by that time, the general content has been confirmed at the draft stage, and if it takes too long to coordinate between the legal departments and it is not possible to complete it in time, it may be considered satisfactory that the contract content has already been discussed. This is an improvement over the terrible times in the past when a draft contract would only arrive after shooting had finished.
- The contract will be delivered once the amount has been determined. Our company would like to negotiate to increase the production commission fee even after we have incurred temporary out-of-pocket expenses for production preparations, etc. For this

reason, if it is a first-time business partner, we try to sign a contract in advance, but if it is a familiar business partner, we may only sign a contract around the time of the release.

- The sooner the contract is delivered, the better.
- The written document is often provided at the production stage, but ideally it would be received at the planning and development stage. It's a common practice in the industry, so I think it's inevitable in a way.

<Trade associations>

- The fact that no written documentation is delivered at the time of ordering is also a form of self-protection for us as the prime production company, and under current business practices, it cannot be said that delivering written documentation earlier is always a good thing. For example, at the ordering stage, before a screenplay is even written, the production committee may say "we're thinking of making it around 100 million yen by this time for this amount of time," and you may believe that and sign a document with the production committee, but then once the screenplay is completed, it turns out that the content is far too expensive to produce for 100 million yen. However, the prime production company is obligated under the contract to guarantee completion and is obligated to complete the film using the production commission fee, so any shortfall is the prime production company's responsibility. Prime production companies may be afraid of this and hesitate to put things in writing at the ordering stage.
- A film's budget and schedule depend largely on the screenplay. The screenplay determines the number of shooting days, location, number of actors, and costumes, and the schedule and budget are calculated. However, at the ordering stage, the content (screenplay) has not been decided, and the production commission fees and schedule cannot be determined in detail, so most of the matters that should be included in the document are undecided, which delays the delivery of the document. On the other hand, as a prime production company, even if the production commission fee has not yet been decided, they have to make themselves available and make arrangements as soon as they receive a request, and they are afraid that they will have to turn down requests for other work while worrying about whether the request will actually be carried out.
- Regarding the item "Status of clarification of transaction terms and timing of delivery of written document," it would be extremely troublesome for prime production companies to have to quickly sign contracts with terms that are disadvantageous to them, so we would like matters that cannot be determined at the time of ordering to be left undetermined, such as a minimum production commission fee of XX yen (to be discussed separately after the screenplay is completed). Alternatively, one way things could work is to separate the contract for the planning stage from the contract for subsequent production. In our company, we sometimes enter into contracts that require us to receive a planning fee at the planning stage.
- One film company sends an order form at the exact time of ordering, and the amount on the order form is listed as tentative until the screenplay is finalized.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

According to a survey of primary production companies, regarding the disclosure of transaction terms in writing during dealings with production committees over the past five years, as shown in Figure3-1, Figure3-2, transaction terms including important matters were

disclosed in most cases. On the other hand, as shown in Figure3-3, it appears that in a significant number of cases, the disclosure timing occurs after the production committee places an order with the prime production company or after production work has commenced.

Under the SME Transactions Act, where a commissioning business operator entrusts a small or medium-sized entrusted business operator, it must immediately specify the required matters (Article 4, paragraph 1 of the SME Transactions Act). In general, commissioning of film production between a production committee and a prime production company constitutes a commission for creation of information-based deliverables under Article 2, paragraph 3 of the SME Transactions Act; where the Act applies, the production committee (as commissioning business operator) must immediately specify the required matters when making such commission.

In film production, screenplays, which function as design specifications, may not yet be finalized at the ordering stage, and the production committee itself may not be fully formed, making it difficult to fix detailed production commission fees and transaction terms. In this regard, in the interview survey, trade associations and prime production companies responded that they would like to avoid finalizing production commission fees in contracts etc. at a stage when it is difficult to estimate production costs, because if the production commission fees are determined based on the commissioner's budget and the commission fees turn out to be insufficient after the screenplay is finalized, the prime production company will have to bear the cost as it is obligated to guarantee completion of the film within the production commission fees.

Prime production companies also responded that, depending on the production committee, they may issue a memorandum or other document stating matters that have been finalized at the time, in anticipation of delays in the signing of contracts, and that they have devised measures such as making separate contracts for planning and development and for the actual production commission, and delivering a document regarding the former before commencing planning and development work. The SME Transactions Act permits supplementary specification where certain matters remain undetermined (Article 4, paragraph 1, proviso). Accordingly, production committees must immediately specify in writing all matters that have been finalized and, after sufficient consultation, determine outstanding matters as early as possible and promptly provide supplementary written notice.

Even where the SME Transactions Act does not apply, failure to specify transaction terms in writing before production begins may leave the prime production company performing under unclear contractual conditions, potentially constituting abuse of a superior bargaining position by the production committee under the Anti-monopoly Act. For this reason, even in such cases, the production committee (constituent business operators) may consider immediately clarifying the terms of the transaction in writing or other form for matters that have been decided, and determining any undecided matters as soon as possible after sufficient discussion, and clarifying them in writing or other form.

(2) Transaction consideration (production commission fees, etc.)

A Actual conditions

(A) Methods for setting production commission fees

In the survey of prime production companies, as shown in Figure3-5, approximately 60% reported that over the past five years they most often determined production commission fees within upper limits or unit-price ranges presented by business partners, while approximately 40% reported reaching agreement based on fees proposed by their own companies reflecting required production costs.

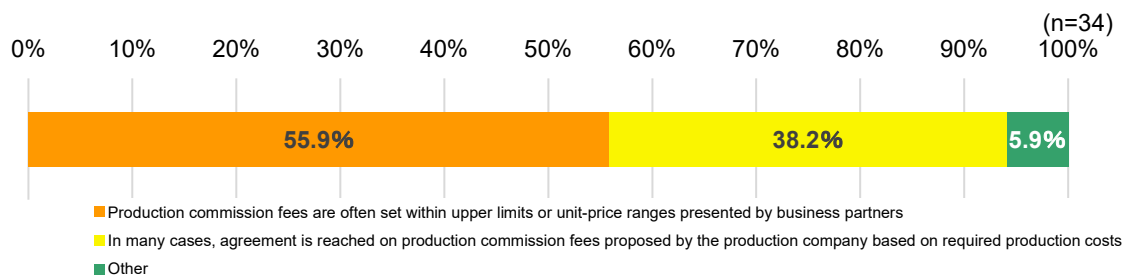
With respect to negotiations over production commission fee amounts during the same period, as shown in Figure3-5, approximately 60% indicated that they were often able to

negotiate.

In the interview survey, production committees revealed that they base production commission fees on both estimates from the prime production company and budgets from the production committee, with responses such as "the production commission fee is determined based on an estimate using the cost markup method⁵¹" and "the total project cost (budget) is determined by projecting the revenue the production committee expects to earn, and within that scope, estimates are received from the primary production company, adjusted, and finalized." Regarding bargaining dynamics, some responded that "the prime production company has communicated the reasons for the increase in production commission fees and negotiations are underway," while others reported that "prime production companies' requests are not easily reflected in production committee consensus-building."

Prime production companies responded that "if we can't produce before filming starts, we can use the fact that we can't produce as our biggest weapon in negotiating the production commission fees," but also responded that "with the production committee model, the production commission fees are decided based on a budget that has been prepared in advance, so it is difficult to negotiate changes to the production commission fees," and "if the budget presented by the production committee is not enough, we negotiate, but the negotiation results are generally not satisfactory, and we cannot make the work unless we tighten the screws on subcontracted production companies and freelancers to make up for the screws placed on us by the production committee," indicating that there are cases where they are unable to negotiate production commission fees sufficiently.

Figure3-5 Methods for determining production commission fees over the past five years⁵²



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

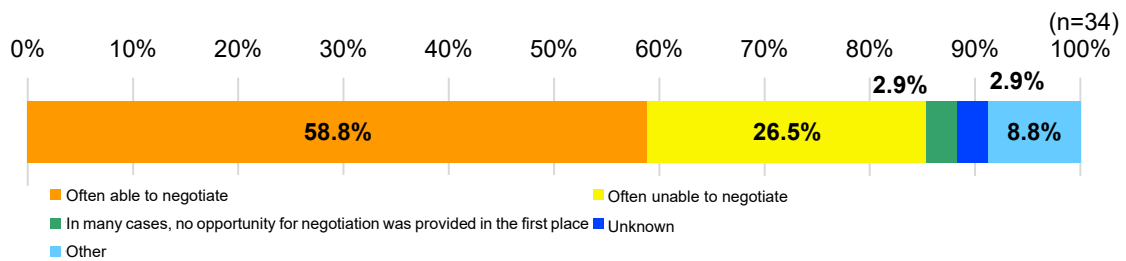
Source: Created based on survey results

⁵¹Method for setting the final transaction price by adding profit to the manufacturing cost

⁵²The following responses were submitted in the free-text field under "Other."

- Both of the above

Figure3-6 Whether the amount of production commission fees has been negotiable over the past five years⁵³



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (8)]

<Production committee>

- The production commission fee is determined based on an estimate prepared by the prime production company using the cost markup method (a pricing method in which the selling price is determined by multiplying the cost of the product by a certain profit margin).
- In terms of production commission fees, after the details of the scenario, main cast, etc. have been finalized with the prime production company, the total project cost (budget) is determined by projecting the revenue the production committee expects to earn, and within that scope, estimates are received from the primary production company, adjusted, and finalized.
- The budget is adjusted by our producer and the producer of the prime production company predicting box office revenue, and the upper limit of the budget is determined based on the amount of production commission fees that need to be paid in order to make a profit, so we search for a feasible limit. The production commission fee is never decided unilaterally, but is decided through proper negotiation.
- Under the production committee model, the budget available is decided in advance, so if the production costs of the prime production company become too high, the budget can be reduced by cutting the screenplay or adjusting the actors used.
- Rather than treating prime production companies as disposable on a project-by-project basis, we factor in the possibility of ongoing collaboration (across multiple works) and fine-tune transaction terms in light of counterpart requests. However, because production committees function as civil-law partnerships requiring unanimous agreement on production-related matters, requests from prime production companies regarding commission fees or contract terms are frequently rejected at the committee level, even where the managing company is inclined to accept them, due

⁵³The following responses were submitted in the free-text field under "Other."
 - Even if you negotiate, the commission fees are ultimately determined unilaterally.
 - It varies from case to case

to objections from other members. Because prime production companies across the industry understand this decision-making structure, many studios likely abandon negotiations from the outset, assuming that requests made to managing companies will ultimately not be approved.

- When production costs increase more than initially expected, a contingency fund may be set aside in advance to accommodate requests for additional production commission fees. At our company, we also finalize the details of the contingency fund in advance with the primary production company. For example, if it is extended by one week, additional costs may be required, so we will discuss how to use contingency funds in such cases.

<Prime production company>

◆Methods for setting production commission fees

- The production commission fees for a film vary from case to case, but first the production committee determines the budget after estimating the amount that can be recovered through the lead actors, screenwriter, director, and original author. The budget is then presented to the prime production company, and negotiations begin.
- If the production commission fee is something that our company has planned, we can estimate the costs, so we will present this to the managing company and negotiate within the budget that the other party can provide.
- The production commission fee is determined through negotiation based on the estimate made at the time of planning. However, since the cast and screenplay have not yet been decided at the time of planning, it is impossible to give an accurate estimate, and the current situation is that estimates are given based on intuition. After the plan is approved and the screenplay and plot are completed, a new estimate is made based on the initial estimate, but if the cost is significantly increased from the initial estimate, it will not be approved, so in the end the initial estimate, which is based on intuition, will have a major influence on the project.
- There is an estimate of production costs at the planning stage, but the actual production costs will not be known until the actors are decided. At the planning stage, the managing company asks for an estimate of the production commission fee, and we tell them our estimated amount, but they usually present us with a lower amount than we answered, and we end up making an estimate based on that amount. If you are offered a price that is much lower than you expected, you have to negotiate.

◆Examples where there is room for negotiation

- The fact that production cannot be carried out before filming begins is our greatest advantage, allowing us to negotiate production commission fees.

◆Examples where sufficient negotiations are difficult

- I think it's the reality that with the production committee model, the production commission fees are decided based on a budget that has been prepared in advance, so it is difficult for the prime production company to negotiate changes to the production commission fees with the production committee.
- When negotiating production commission fees, rather than negotiating for an increase, the content (quality) is often adjusted, such as by rewriting the screenplay

to fit the budget, in order to reduce the costs required for production by the prime production company.

- There are cases where the production committee presents a budget that is inevitably insufficient, and the producers request changes to the screenplay and negotiate to make it possible to produce within the budget, but the negotiation results are usually unsatisfactory. Ultimately, negotiations with freelancers and subcontracted production companies will result in cuts in remuneration. Our company cannot make the work unless we tighten the screws on subcontracted production companies and freelancers to make up for the screws placed on us by the production committee
- While we are negotiating with the production committee, we may already have staff and directors under contract, so if they ultimately refuse to negotiate, we will end up in the red.
- The prime production company is in a weaker position and is not able to negotiate adequately. Some of the production committee's managing companies have strict budgetary restrictions, so they will not accept estimates with a buffer, even if we have a track record.
- As a prime production company, it is not uncommon to be presented with production commission fees that are somewhat steep. In such cases, we present an estimate and negotiate to increase the amount, but if the producer on the production committee does not know the production site, they will not understand the reason for the increase, making negotiations difficult, and as a result, the increase is often not obtained. In such cases, we will make efforts to produce the work within the limited production commission fee, but in the end we will have to allocate funds from the profits that we should be securing.
- If it is a work that is funded solely by the producer, negotiations can be held to get the producer's wishes accepted, including the method of setting success fees, but if it is a production committee model involving multiple large companies, it is difficult to negotiate with the people in charge of all the companies (who are often salaried employees and do not have decision-making power). Even if the person in charge at the managing company thinks it's a good idea, they always respond that they will consult the production committee, which will ultimately reject the proposal and turn it down, so there is effectively no negotiation.

<Trade associations>

- I believe that negotiations over compensation are merely an accumulation of costs, and are not one-sided based on power relationships.
- According to the Japan Motion Picture Production Standards Association Guidelines, if production costs exceed the initial budget despite no fault of the prime production company, the producer may be required to cover the additional costs.
- It's not that the production committee's managing company is completely unwilling to negotiate on the production commission fees, and when negotiations are brought up, they are willing to consider the matter, saying things like, "We'll see if there's anything else we can do." As a result, there are times when the production commission fee is increased, but since there is a limit to how much the production commission fee can be increased, it seems that in many cases the screenplay is cut. In recent years, due to rising production costs, there have been many cuts to screenplays, which I have heard has led to criticism from screenwriters.

(B) Production commission fee level

In the survey of prime production companies, as shown in Figure3-7, approximately 30% reported that production commission fee levels have increased over the past 10 years, while approximately 20% reported that they had decreased, and approximately 40% reported that they were about the same.

However, with respect to satisfaction with the level of production commission fees, as shown in Figure3-7, only around 10% responded that they were "satisfied," while 70% stated that they were "dissatisfied." Approximately 60% to 70% of respondents cited the following reasons for dissatisfaction: "increased prices have not been adequately passed through;" "production costs have risen because higher quality standards are now required;" and "production costs have increased because the scope of production has expanded."

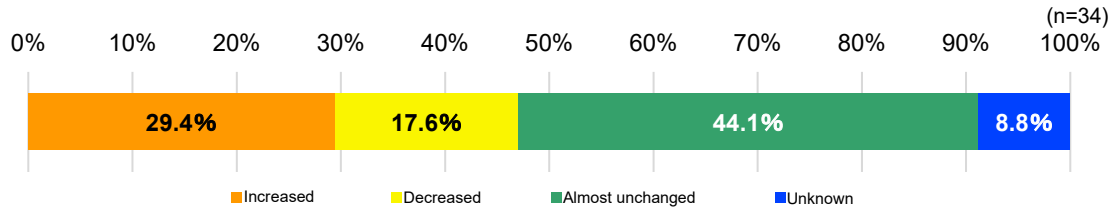
With respect to operating profit or loss based solely on production commission fees, over 50% of prime production companies reported operating at a profit while under 50% reported operating at a loss. Even among those with capital exceeding ¥50 million, around 30% reported losses, indicating that production commission fees alone don't always generate profit.

In the interview survey, production committees responded that "the market rate for production commission fees has been rising every year," and, "since the Japan Motion Picture Production Standards Association Guidelines were established, schedules are made on the assumption that the guidelines will be adhered to, so production periods have been extended and production costs have increased," indicating a recognition that production commission fees are rising due to rising costs for prime production companies.

On the other hand, the prime production companies responded that "the additional costs of complying with the Japan Motion Picture Production Standards Association Guidelines are borne by the prime production company."

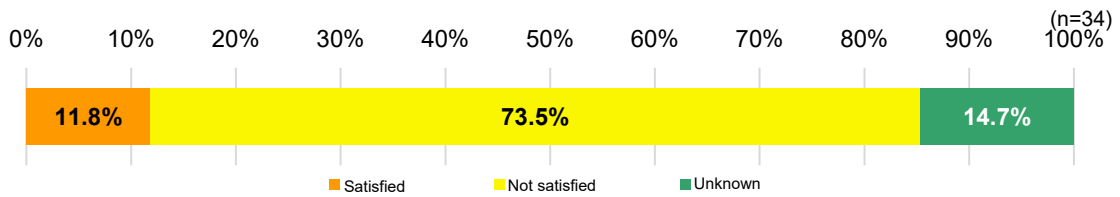
In addition, prime production companies have stated that, under industry customs, prime production companies are only allowed to have a gross profit margin of a few percent, and that if the production commission fees exceed the limit, they are forced to use their gross profit to make up for the excess; they also stated that there are many uncertainties in film production, and costs can add up due to small details, causing the budget to be exceeded, and that although production costs often exceed the budget, there is no buffer allowed in the estimate, and therefore the production commission fee is not profitable or ends up in the red. There was also a response that "no planning and development expenses are paid."

Figure3-7 Changes in production commission fees over the past 10 years



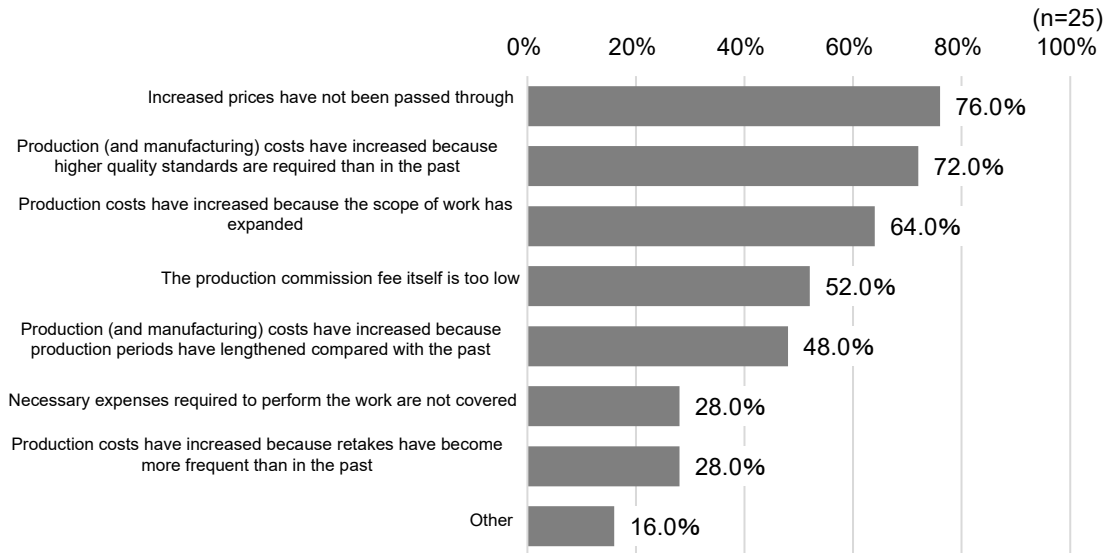
*Prime production companies were asked to respond regarding trends over the most recent 10 fiscal years
Source: Created based on survey results

Figure3-8 Satisfaction with the level of production commission fees



Source: Created based on survey results

Figure3-9 Reasons for dissatisfaction with the level of production commission fees (multiple responses)⁵⁴

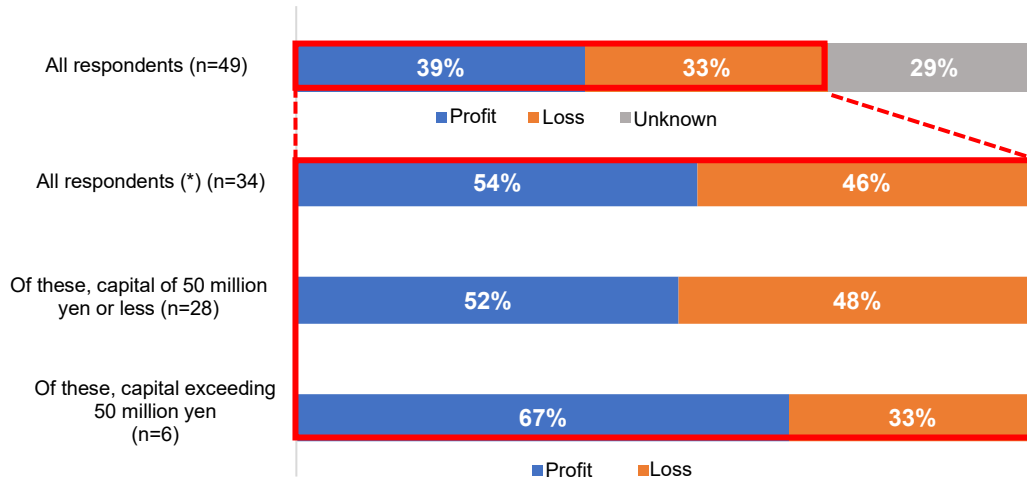


Source: Created based on survey results

⁵⁴The following responses were submitted in the free-text field under "Other."

- I'm faced with the dilemma that I would like to increase production costs and produce something of higher quality, but if I do that I won't be able to recover my investment
- It varies from case to case
- Although the Japan Motion Picture Production Standards Association Guidelines are now often enforced, shooting still has to be done on a limited schedule, which increases the costs on location, but there is no budget to cover them adequately
- Producer labor costs are low

Figure3-10 Operating profit or loss over the past year based solely on production commission fees



(*)Excludes responses of "Do not know" regarding capital and "Do not know" regarding operating profit or loss based solely on production commission fees.

Source: Created based on survey results

[Interview excerpt (9)]

<Production committee>

- The average production commission fee is rising every year. Of course, rising prices are contributing to the rise in production commission fees, but the main reason for the increase in production commission fees is that production periods are being lengthened in order to improve the environment on set as a result of the Japan Motion Picture Production Standards Association Guidelines. As production periods have been extended, overall production commission fees, including cast fees and equipment costs, have increased. Over the past two to three years, production commission fees have increased by about 1.4 times.
- Since the Japan Motion Picture Production Standards Association Guidelines were established, schedules have been made on the assumption that the guidelines will be adhered to, which has resulted in longer production times and higher production costs. In addition, labor and material costs have risen sharply compared to 10 years ago, and the rise in material costs in particular has a major impact on production commission fees.

<Prime production company>

◆ The level of production commission fees

- Since the Japan Motion Picture Production Standards Association Guidelines were established, our company has been negotiating with the (managing companies of) production committees to raise the production commission fees because "in order to properly implement the Japan Motion Picture Production Standards Association Guidelines, we will need more labor costs than before, so we would like you to

increase the production commission fees," but all of the managing companies have refused, saying that they cannot do that, although they seem apologetic. Ultimately, the additional costs of complying with the Japan Motion Picture Production Standards Association Guidelines are borne by the prime production company.

- Production commission fees have been rising over the long term. However, this is not enough to keep up with the rise in production costs due to rising prices and other factors. In reality, the approximate production commission fee is determined by the screenplay, director, and actors. Also, if you work backwards from the box office revenue, the budget will naturally be determined.
- The production commission fee varies greatly, from around 50 million yen to 200 million yen, depending on the extravagance of the production and the number of people required.

◆**Production deficits, etc.**

- Production management expenses (expenses related to administrative tasks, general administrative expenses) treated as the prime production company's gross profit are generally around 5% as an industry unwritten rule, and the managing company will not approve anything higher than that. Production management expenses include the salaries of our producers and back office costs such as accounting, and also serve as a margin for cutting costs in the event that additional production costs are required. We would prefer 10%, but even 15% is barely sustainable for our business. Therefore, film production is essentially a hand-to-mouth operation. Our company also produces television dramas, and we are able to make a profit from that, which has helped us stay afloat.
- The gross profit margin on production commission fees is a few percent, and even looking at the industry as a whole, there are probably very few prime production companies that can make even 10%. Many production sites are running at a loss with the prime production company covering the costs.
- Information-based deliverables such as films have many uncertainties that cannot be known until they are made, and even if there are no major problems, costs often add up due to small, unavoidable circumstances, causing the budget to be exceeded. Therefore, as a prime production company, you would like to submit an estimate that takes a buffer into account before negotiating, but the other party will know from experience whether a prime production company's estimate includes a buffer, so they will not accept this, and if they do, there is a risk that the project will be taken away by another prime production company, so it is difficult to do this.
- Even in transactions with a production committee with which the relationship can be said to be good, the prime production committee is only paid the bare minimum of the production commission fee, and negotiations to increase the production commission fee are rarely accepted, so it can be said that in general, in many cases the production is somehow managed to be produced with a production commission fee that is below the bare minimum offered by the production committee.
- The production commission fee is determined by the production committee's budget limit. We negotiate the production commission fee, but sometimes it ended up being about one-third of our estimate. We had no choice but to cover the remaining two-thirds. Because things like this can happen, we operate at a chronic production loss. We are managing to make up for the deficit by taking funds from other businesses.

◆Planning and development expenses

- No planning and development expenses are paid. The primary production company plans and operates in order to receive production contracts, so the costs at the planning stage are, so to speak, an investment. However, if the film is being made using the production committee model, planning and development expenses should be necessary expenses for film production, so if the plan is approved, we would like to be compensated for our planning and development expenses. However, in this industry where relationships are important, we are unable to negotiate because we fear that if we negotiates poorly with the production committee, they will shun us and we will no longer be able to get work. Because the production committee does not cover planning and development expenses, it is difficult for the prime production company to incur costs for planning work, and some prime production companies often ask young screenwriters to write plots and then not pay them if the project does not come to fruition. For works based on an original work, the prime production company pays royalties to the original author (publisher, etc.) at the planning stage and secures the film rights. Even if the project is actually realized and production is carried out, the production committee will not pay these costs since planning and development expenses are not paid.
- In our company, we sometimes enter into contracts that require us to receive a planning fee at the planning stage.

<Trade associations>

- Contracts go more smoothly when you deal with a production committee (managing company) that takes into consideration the costs that will be incurred before filming begins, such as screenwriting fees, research expenses, and preparation expenses. Most of these companies are large.

(C) Success fees

In film production, in addition to the production commission fee, contracts may provide for payment of success fees⁵⁵, calculated by applying a specified rate to the production committee's secondary-use revenues, as part of the consideration for the work.

In a questionnaire survey of prime production companies, as shown in Figure3-11, approximately 30% of respondents indicated that they received at least one form of remuneration beyond production commission fees for works produced over the past five years, specifically regarding remuneration paid after recoupment⁵⁶ (success fees). In the interview survey, multiple production committees and prime production companies responded that production royalties⁵⁷ are not set for film production; however, in the questionnaire survey, approximately 20% of respondents indicated they had received at least

⁵⁵This refers to remuneration paid after recoupment has been completed, calculated by applying a specified rate to revenues earned by the production committee or similar entities.

⁵⁶Recoupment refers to recovery by the production committee of its total project costs (capital contributions) from revenues generated through secondary use of the work by constituent members, after deduction of distribution fees, expenses, and various royalties. Completion of recoupment (recovery of 100% of invested capital) does not necessarily coincide with the break-even point for each constituent member.

⁵⁷This refers to remuneration paid by applying a specified rate to revenues earned by the production committee, regardless of whether recoupment has been completed. The revenue base and applicable rate vary by contract; for example, the rate may be applied to the amount remaining after deduction of distribution handling fees or similar charges. These payments are also referred to as studio royalties or production royalties.

one form of remuneration prior to recoupment.

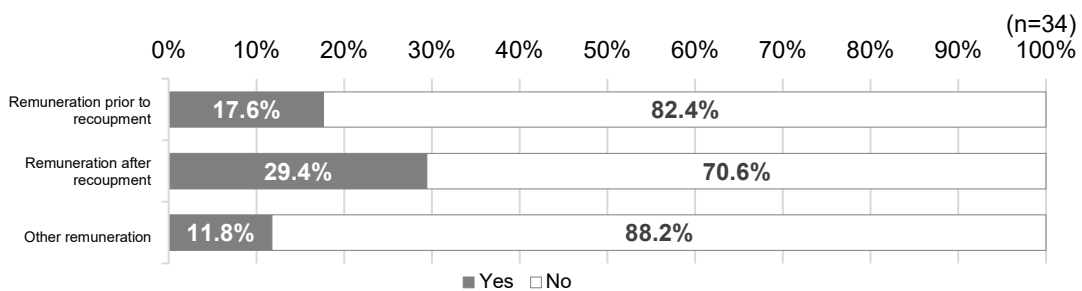
In addition, regarding the possibility of negotiation regarding remuneration paid in addition to these production commission fees, as shown in Figure3-12, approximately 20% of respondents reported being able to negotiate remuneration before recoupment was completed, while approximately 30% reported being able to negotiate remuneration after recoupment was completed. In terms of satisfaction, approximately 30% reported that they were "Not satisfied" with remuneration before recoupment was completed, and approximately 40% reported that they were "Not satisfied" with remuneration after recoupment was completed.

In the interview survey, production committees responded that "success fees are standard" and "the number of cases in which success fees have been introduced has been increasing in recent years."

On the other hand, some prime production companies responded that negotiating success fees is difficult, saying "we have tried to negotiate, but they simply rejected our request, saying that if we want success fees, we should just invest more in the production committee."

In addition, prime production companies responded with dissatisfaction with the targets and rates of success fees, saying "success fees are almost meaningless in the film industry, where you can't recoup in most cases," and "the source of recoupment is not the entire profits of the production committee, but the profits after deductions of window fees, expenses incurred from film sales, and various royalties, etc., so while it is easy for members of the production committee who have a window to earn profits, the structure makes it that much more difficult to recoup, and success fees are difficult to accrue."

Figure3-11 Whether remuneration in addition to the production commission fee was paid during the past five fiscal years⁵⁸

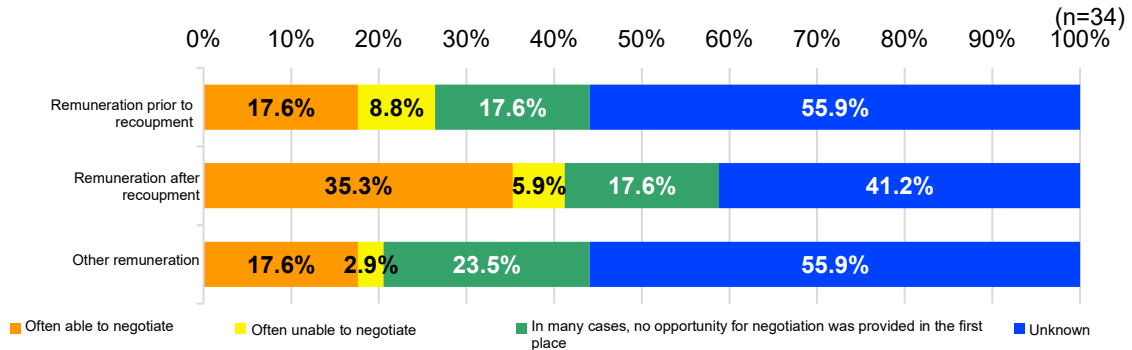


*Prime production companies were asked to indicate whether at least one such case occurred during the most recent five fiscal years

Source: Created based on survey results

⁵⁸The following responses were submitted in the free-text field under "Other remuneration."
 - Distribution fees
 - Screenwriter royalties

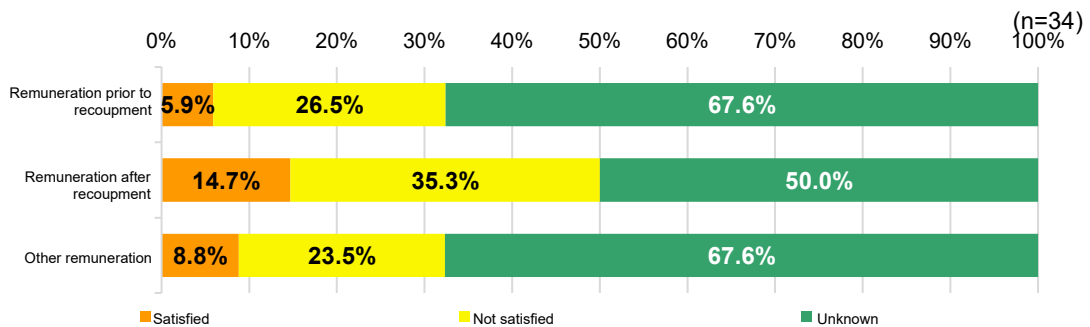
Figure3-12 Whether remuneration in addition to the production commission fee has been negotiable over the past five years



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

Figure3-13 Satisfaction with remuneration paid in addition to the production commission fee over the past five years



Source: Created based on survey results

[Interview excerpt (10)]

<Production committee>

- Detailed adjustments are made in individual contracts based on the content outlined in the contract template. The source of the success fee is the amount remaining after deducting the managing company's fees, various counter fees, expenses, various royalties, etc. from the committee's total income.
- It is standard for the prime production company to receive success fees in addition to production commission fees. The Japan Motion Picture Production Standards Association template includes a success fee, and we believe that it is perfectly natural that a success fee should be included.
- The success fee paid to the prime production company may be set according to the difficulty of the production, as production has become more difficult in recent years, but it varies from case to case. Production commission fees were paid as a guarantee of completion, so success fees were generally not paid; however, in recent

years, prime production companies also bear risks in production, leading to an increase in cases where success fees are introduced.

- There is a concept of production royalties for anime films and anime works, but there is no concept of production royalties for live-action films, only success fees.
- In live-action films, success fees are often added. Sometimes the production side will negotiate. The distribution method may be after the recoupment is complete, or a larger percentage may be set as a success fee after 120% of the profits have been recouped.
- Recently, where our company serves as the managing company, no distribution handling fee is set; only actual expenses incurred in performing distribution functions are recognized, and all remaining sales revenues are collected and distributed as production committee income. Compared with traditional distribution methods that permit distribution handling fees, this approach facilitates recoupment by the production committee and, where success fees are granted to prime production companies, increases the likelihood that such success fees will in fact be triggered.

<Prime production company>

◆Examples where success fees were set

- In addition to the production commission fee, the other revenue received from the production committee is a success fee after recoupment is completed. Success fees after recoupment is completed are common. The percentage of success fees is usually around 4-5%.
- We may negotiate additional success fees as an option in our contracts. If 120% is recouped, 15% of the subsequent profits will be distributed to the prime production company.
- I think that one of the few measures currently available is to spread contractual provisions throughout the industry that allow prime production companies to transfer copyright in exchange for receiving a success fee after recoupment. I believe that this success fee method is extremely important for improving the profitability of prime production companies. In fact, we are working to increase our success fee rates, and currently there are some films where they exceed 20%.
- In most cases, contracts with production committees include a condition of a success fee (a percentage of the profits after the production committee's recoupment). However, the extent to which success fees are charged varies depending on the work, and in some cases, they only cover income from theatrical release and fees from home video media (DVDs, etc.). Currently, we make more money from streaming and overseas sales than from home video media, so we are not happy with such cases.

◆Examples where success fees could not be set

- I think it would be difficult for the prime production company to receive performance-based remuneration. Also, even if the product is a hit, there is no success fee. Anime films can sometimes be huge hits, but live-action films rarely become huge hits.

- It is rare for a production contract with a production committee to include a success fee. We have tried to negotiate, but they simply rejected our request, saying that if we want success fees, we should just invest more in the production committee, so it is not often that we receive success fees.
- If it is a work that is funded solely by the producer, negotiations can be held to get the producer's wishes accepted, including the method of setting success fees, but if it is a production committee model involving multiple large companies, it is difficult to get approval from everyone in charge of all the companies. Even if the managing company thinks it is a good idea, it will always be discussed with the production committee, which never leads to negotiations.

◆Impact of success fees on management

- Success fees may be set, but they are calculated as a percentage after recoupment, which is unsatisfactory. In the film industry, where top-offs of window fees and other fees by the constituent companies of a production committee (deducting advertising expenses and other window fees in advance before distributing revenue among the constituent companies) are common and it is difficult to fully recoup the profits, a mere few percent after recoupment is completed holds little significance for the prime production company.
- Recently, success fees have become a relatively common part of contracts with production committees. We would like the rate to be 10%, but in reality it is around 5% of net profit after recoupment and top-off. However, success fees are almost meaningless in the film industry, where you can't recoup in most cases. Furthermore, the information on recoupments from the production committee cannot be trusted because details of income and expenditures are not disclosed.
- To begin with, since recoupment is rare for live-action films, there are few cases where success fees, which are revenues multiplied by a percentage of the revenues after recoupment, are generated. The source of recoupment is not the entire profits of the production committee, but the profits after deductions of window fees, expenses incurred from film sales, and various royalties, etc., so while it is easy for members of the production committee (if they have a window to earn profits), the structure makes it that much more difficult to recoup, and success fees are difficult to accrue. In this situation, with a low percentage of 3-5%, even if success fees are generated, they will not be enough to fund an increase in the number of production staff or their salaries, so we believe that the percentage should actually be much higher.

◆Other

- If the film cannot be produced within the initial budget, the contract may be amended and the success fee terms may be removed after the fact, on the grounds that the prime production company has not fulfilled its obligation to guarantee completion. If that is the case, then as a prime production company producing a film with a production commission fee that is as low as possible amidst many uncertainties surrounding increased costs, the risk would not be worth it unless the success fee were to be increased. If there were sufficient production commission

fees paid by the production committee, it would be understandable for the success fee to be low, but there is no case where there are sufficient production commission fees.

- When a film is made based on an original work, royalties for the original work are paid to the original author or original work manager, and when a screenplay is written, script royalties are paid to the screenwriter. However, even if our company comes up with an original plan and produces a film, there are no corresponding royalties (even for original works, only production commission fees are paid). In the U.S., there are things like producer royalties and planning royalties, but Japan does not have these.
- For success fees, we would like the standard for receiving fees to be lowered to when 50% of the profits have been recouped, although this does not mean that they should be based on the initial profits (of the production committee). We have been trying to negotiate in this way, but have been rejected.
- Ideally, I think that in exchange for transferring copyright, creators should be paid royalties, but unless there is external pressure, the business structure built by those in a powerful position cannot be changed.

<Trade associations>

- A success fee may be included in the production services agreement. There are no set regulations, and it depends on the agreement with the prime production company. The Japan Motion Picture Production Standards Association template states that "to be discussed separately," indicating the existence of a success fee.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

(A) Unjust price reduction

Production committees responded that the average cost of production commission fees has risen mainly due to rising prices and film-related guidelines. However, in the survey of prime production companies, approximately 30% reported that production commission fee levels have increased over the past 10 years, while approximately 20% reported that they had decreased, and approximately 40% reported that they were about the same, showing that it cannot be said that production commission fees are trending upward across the entire industry.

Furthermore, when it comes to operating profits and losses based on production commission fees alone, approximately 50% of prime production companies responded that they are in the red. In addition, prime production companies pointed out that "the tacit understanding in the industry is that production management expenses (expenses related to administrative tasks, general administrative costs) that are treated as gross profit should be around 5%, and they won't allow anything more than that," suggesting that prime production companies are not very profitable.

Although such circumstances do not in themselves constitute a violation of the SME Transactions Act or the Anti-Monopoly Act, where a transaction falls within the scope of the SME Transactions Act, if a production committee ("constituent entrepreneur") unilaterally sets compensation for a prime production company at a level substantially below the

ordinarily payable amount without adequately considering factors such as heightened quality requirements and rising prices, this may constitute unjust price reduction under Article 5, Paragraph 1, Item 5 of the SME Transactions Act.

Even where the SME Transactions Act does not apply, if a production committee ("constituent entrepreneur"), by abusing a superior bargaining position, unilaterally sets compensation at an unreasonably low level without sufficient consultation in light of heightened quality requirements and rising prices, thereby causing unjust disadvantage to a prime production company in light of normal business practices⁵⁹, this may constitute abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act.

(B) Unilateral determination of consideration without consultation

In the survey of prime production companies, approximately 60% reported that over the past five years they most often determined production commission fees within upper limits or unit-price ranges presented by business partners, while approximately 40% reported reaching agreement based on fees proposed by their own companies reflecting required production costs.

In interviews, production committees (constituent entrepreneurs) stated that they do not treat prime production companies as disposable on a project-by-project basis but instead anticipate the possibility of continuing relationships on other works and therefore fine-tune transaction terms in light of the counterparty's requests; this indicates that a certain degree of negotiation may take place in determining production commission fees.

However, prime production committees have responded that "I think it's the reality that with the production committee model, the production commission fees are decided based on a budget that has been prepared in advance, so it is difficult for the prime production company to negotiate changes to the production commission fees with the production committee," indicating that there are cases where negotiations are insufficient.

Since the enforcement of the SME Transactions Act amendments, if a production committee (constituent entrepreneur) unilaterally determines the production commission fee despite a request from a prime production company for price negotiations, or fails to provide necessary explanations, such conduct may constitute unilateral determination of consideration without consultation under Article 5, Paragraph 2, Item 4 of the SME Transactions Act⁶⁰.

Even where the SME Transactions Act does not apply, if a production committee ("constituent entrepreneur"), by abusing a superior bargaining position, unilaterally sets compensation at an unreasonably low level without sufficient consultation in light of heightened quality requirements and rising prices, thereby causing unjust disadvantage to a prime production company in light of normal business practices, this may constitute abuse

⁵⁹"Normal business practices" refers to practices that are regarded as acceptable from the standpoint of maintaining and promoting fair competition. Therefore, just because an act conforms to existing business practices does not automatically justify that act. (See Section 3 of the Fair Trade Commission's "Guidelines under the Anti-Monopoly Act Concerning Abuse of a Superior Bargaining Position" (revised June 16, 2017).)

⁶⁰This provision was added as a prohibited act for commissioning businesses through statutory amendment (scheduled to take effect on January 1, 2026).

of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act⁶¹.

As previously mentioned in Chapter 2, Section 3, 2(1), it is often difficult to calculate the exact required personnel and working period before and after planning and development when production is commissioned, and as a result, it may be difficult to calculate estimates and determine production commission fees. In fact, during the interview, a prime production company responded that "the production fee is determined through negotiation based on the estimate at the time of planning. However, since the cast and screenplay have not yet been decided at the time of planning, it is impossible to give an accurate estimate, and the current situation is that estimates are given based on intuition. After the plan is approved and the screenplay and plot are completed, a new estimate is made based on the initial estimate, but if the cost is significantly increased from the initial estimate, it will not be approved, so in the end the initial estimate, which is based on intuition, will have a major influence on the project."

In this regard, one production committee responded that "when production costs increase more than initially expected, we can respond to requests for additional production commission fees by setting aside contingency funds in advance," and some production committees set up contingency funds in addition to production commission fees to respond to subsequent changes in circumstances. Furthermore, one production committee responded that "in recent years, prime production companies have also taken on the risk of production, so there have been an increasing number of cases where success fees have been introduced," and some production committees have made use of success fees. Accordingly, where, due to the nature of production, it is difficult to calculate and fix the contract price at the time of commissioning, the parties may consider, following sufficient consultation, establishing a compensation framework tailored to the circumstances of each transaction, including success fees aside from contingency funds.

(3) Contractual treatment of copyright

A Actual conditions

(A) Attribution of copyright

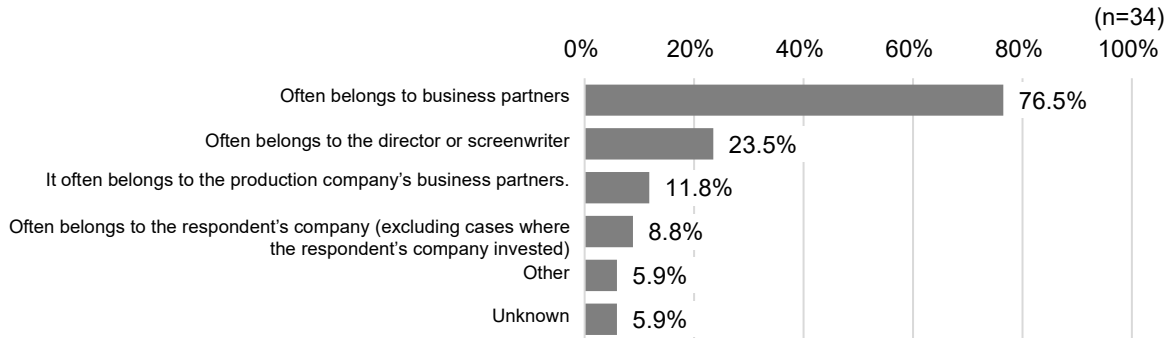
As discussed in Chapter 2, Section 1, 4 (1) (c), pursuant to Article 29 of the Copyright Act, the entity in which copyright vests (such as the production committee or the prime production company) depends on the specific facts of each case.

In interviews with production committees and prime production companies, some respondents indicated that contracts provide that copyright vests in the production committee upon completion. Others stated that, where copyright initially vests in the prime production company, it is transferred to the production committee at the time of completion. Also, in a questionnaire survey of prime production companies, as shown in Figure3-14, when asked to whom the final copyright belonged over the past five years, approximately 80% of respondents answered that "it often belonged to the business partner," suggesting that regardless of the entity to which the copyright belongs, in many cases the production

⁶¹See Japan Fair Trade Commission, "Guidelines Concerning Abuse of a Superior Bargaining Position under the Anti-Monopoly Act" (revised June 16, 2017), Section 4.3(5)A, Unilateral Determination of Transaction Consideration (Japanese)

committee is the final owner of the copyright.

Figure3-14 Final ownership of copyright over the past five fiscal years (multiple responses permitted)



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (11)]

<Production committee>

- The contract stipulates that all copyrights for films owned by the prime production company will be transferred to the production committee upon delivery.
- Because the business model is premised on exploiting rights to generate revenue, it is considered rational to consolidate copyright in a production committee with the capacity to manage and monetize those rights, and this approach is understood to have long constituted industry practice.
- In practice, copyright is often ultimately held by the production committee that has made the investment, and it is regarded as sufficient so long as copyright ultimately vests in the production committee. It is recognized that, going forward, discussion will be necessary regarding the degree of creators' contributions and compensation commensurate with those contributions. There is an understanding of the argument that production companies and creators should receive compensation for copyright.
- The prevailing view is that, because the production committee pays the production commission fees, copyright should be held by the production committee and allocated among its members in proportion to their respective investment ratios.
- If a production company seeks ultimately to retain copyright, the straightforward option is to participate in the production committee as an investor.

<Prime production company>

- Ideally, having the prime production company retain copyright would establish a revenue stream for the prime production company and lead to sounder management practices. However, since production committees do sometimes grant permission to

various parties, I think there is some rationality in having production committees that are capable of dealing with such practical matters manage copyright.

- In cases where copyright belongs to the prime production company, the contract states that "copyright will be transferred to the managing company as soon as it is created."
- Throughout the film industry, there is a perception that film rights belong to the investors. Since they are providing investment, it would be understandable if they were to take a "proportion" of the copyright, but when it comes to transferring the copyright that belongs to the prime production company, it is strange that the copyright is taken 100% without any consideration for the transfer.

<Experts (lawyers and scholars)>

- Article 29 of the Copyright Act was enacted at a time when film companies produced films by assembling actors, directors, and other staff in their own studios. Therefore, in the film industry, it was assumed that the copyright of films produced by studios naturally belonged to the film company. In this respect, the industry's history is different from that of anime, where there was no capital relationship between investors such as television stations and prime production companies.

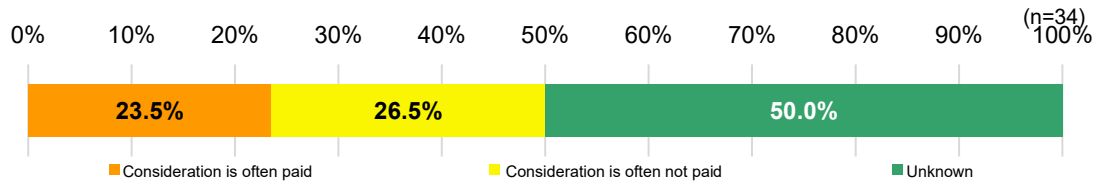
(B) Setting of consideration for copyright initially vesting in the prime production company

In a questionnaire survey of prime production companies concerning payment of consideration for copyright transfers during the past five fiscal years, approximately 20% responded that consideration is "often paid," while approximately 30% responded that consideration is "often not paid." Among those prime production companies that stated consideration was often paid, the most common response regarding its substance was that it was included in the production commission fee.

In interviews, production committees stated that where copyright vested in a prime production company is assigned, the consideration is included in the production commission fee, that the consideration cannot be separately calculated, or that the prime production company records a certain profit within the production commission fee under headings such as production management expenses and that this amount effectively constitutes consideration for the assignment. Another response stated "the success fee is merely an additional fee, and is not considered to be remuneration for the transfer of copyright."

Prime production companies responded that "we understand that the copyright belongs to the production committee," but when asked about transferring the copyright belonging to the prime production company, they responded that "the contract stipulates that the copyright will be transferred to the production committee free of charge," and "even if the copyright is being transferred, it would be strange to do so free of charge."

Figure3-15 Payment status of consideration for assignment of vested copyright over the past five years



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (12)]

<Production committee>

- It is understood that where copyright vested in a prime production company is assigned, the consideration for that assignment is included in the production commission fee paid by the production committee. Because the prime production company records a certain level of profit within the production commission fee under headings such as production management expenses, that amount is regarded as constituting consideration for the assignment of copyright.
- Where copyright vests in a prime production company, payment to the prime production company is structured so that consideration for the assignment is included within the production commission fee. Contracts are concluded without itemizing or disclosing the breakdown between the production commission fee and consideration for the assignment.
- Because audiovisual copyright has not yet been commercially exploited at the time it arises and its value cannot then be readily assessed, it is not realistic to estimate separate consideration for its transfer where it initially vests in a prime production company.
- If the copyright belongs to the prime production company, the contract stipulates that remuneration for the transfer of copyright is included in the production commission fee. The only reason these terms of trade are in place is because they are common and are business practices. It seems that this has long been a business practice that has been developed to suit the structure of production committees.
- When copyright belonging to the prime production company is transferred to a production committee, the remuneration for the transfer of copyright is included in the production commission fee. The prime production company will transfer the intermediate deliverables together with the footage to the production committee, so we understand that the remuneration for the transfer of copyright also includes remuneration for the copyright for the intermediate deliverables.
- = Production royalties and success fees in anime and film production transactions are merely considered additional remuneration, and are not considered to be remuneration for the transfer of copyright. It is an incentive paid to increase the motivation of the prime production company.

<Prime production company>

- If the copyright belongs to the prime production company, the contract stipulates that the copyright will be transferred to the production committee free of charge, regardless of whether or not they are involved in the project. Ideally, I think that in exchange for transferring copyright, creators should be paid royalties (rather than success fees), but unless there is external pressure, the business structure built by those in a powerful position cannot be changed.
- Although the ownership of copyright will depend on the case, we are conducting transactions under the assumption that the copyright is originally acquired by the prime production company and then transferred to the production committee free of charge. The planner should also be granted copyright, and even if the copyright of the completed work is being transferred, it would be strange to do so free of charge. At the very least, we would like to see a system whereby "X% of the copyright is retained by the prime production company, and the rest is transferred to the production committee." Japan seems to be lagging behind other countries in this respect.
- If you want the copyright to a film, your only options are to invest in a production committee or to create the original story yourself and hold the original and screenplay rights. Perhaps there is a difference in the awareness of copyright rights between anime and live-action films?

<Trade associations>

- Where copyright vests in a prime production company, the production commission fee is paid on the premise that the copyright will be delivered together with the work, and no separate concept of assignment consideration arises.

<Experts (lawyers and scholars)>

- Even where copyright vests in a prime production company and a contract is concluded for its assignment, the consideration need not take the form of a lump-sum payment and may instead be structured as post hoc royalties. There are precedents in other industries.
- Although a structure in which consideration for copyright is paid separately from the production commission fee is conceivable, it is inherently difficult at the contract stage to assess the economic value of the work. Accordingly, a running royalty structure, that is, a revenue-share model under which revenues from secondary exploitation are distributed to the original rights holder in proportion to sales, may be more workable. Such payment structures are reportedly used in certain overseas markets.

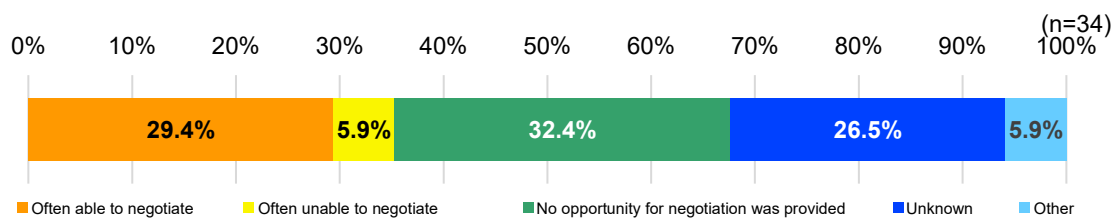
(C) Status of negotiations

In the questionnaire survey of prime production companies, as shown in Figure3-16, regarding negotiations over the past five years on copyright ownership and consideration for assignment, approximately 30% of respondents said they were "often able to negotiate," approximately 10% said they were "often unable to negotiate," and approximately 30% said "no opportunity for negotiation was provided."

In interviews, production committees stated that where copyright vests in a prime production company, it is a shared understanding that "consideration for assignment is included within the general administrative expenses component of the production commission fee." However, they also acknowledged that they have "never expressly confirmed with the prime production company that such consideration is in fact included in the fee."

Prime production companies responded that "copyright is never explained to us during negotiations, and it is never even discussed," and that in cases where copyright belongs to the prime production company, "we have never seen a paid transfer of copyright, and even if we proposed it, it would probably not be accepted."

Figure3-16 Negotiation status over the past five years regarding copyright ownership and consideration for assignment



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (13)]

<Production committee>

- It is regarded as a shared understanding with the prime production company that consideration for assignment is included within the general administrative expenses component of the production commission fee. They have never expressly confirmed with the prime production company that consideration for assignment of copyright is included within the production commission fee.

<Prime production company>

- When negotiating a contract with the production committee, copyright issues are never explained to us and are never even discussed.
- We have never seen a paid transfer of copyright, and even if we proposed it, it would probably not be accepted. Furthermore, we have never been given any explanation as to why it was being transferred free of charge.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

Regarding the setting of consideration where copyright vests in a prime production company, interviews revealed that production committees take the view that audiovisual copyright has

no ascertainable value at the time it arises and therefore that it is unrealistic to estimate separate consideration for its transfer; experts likewise noted that the economic value of the work cannot be reliably assessed at the contract stage. Trade associations have also stated that production commission fees are paid on the premise that copyright will be delivered together with the work and that the notion of separate assignment consideration does not arise.

With respect to consideration where copyright vests in a prime production company, production committees stated in interviews that such consideration is included within the production commission fee; however, prime production companies responded that even if the copyright is being transferred, it would be strange to do so free of charge, suggesting that in some cases they view the assignment as effectively without compensation or as inadequately compensated. Experts have also observed that while payment of consideration for copyright would be desirable, the difficulty of assessing economic value at the contract stage makes a sales-based distribution of secondary-use revenues to the original rights holder a more workable approach.

In transactions subject to the SME Transactions Act, where copyright vests in a prime production company and the production committee, as the commissioning business operator, requires that copyright be assigned to it as part of the "content of the benefit," setting the production commission fee, including consideration for the assignment of copyright, at a level unreasonably and substantially below the ordinarily payable consideration constitutes a violation of the SME Transactions Act (unjust low pricing) (Article 5, Paragraph 1, Item 5 of the SME Transactions Act).

With respect to consultations concerning consideration where copyright vests in a prime production company, the questionnaire survey indicated that approximately 40% of respondents reported that they were often unable to negotiate or that no opportunity for negotiation was provided regarding copyright ownership or assignment consideration; moreover, interviews revealed statements that there had been no explicit confirmation that assignment consideration was included in the production commission fee and that no explanation has been given for why the transfer is free of charge, suggesting that consultations on copyright ownership and consideration are in some cases inadequate.

Following the enforcement of the SME Transactions Act, where copyright vests in a prime production company and the production committee requires its assignment as part of the "content of the benefit," if the production committee unilaterally determines the production commission fee, including consideration for assignment of copyright, by refusing a request from the prime production company for price negotiations or by failing to provide necessary explanations, such conduct constitutes a violation of the SME Transactions Act (unilateral price determination without responding to consultations) (Article 5, Paragraph 2, Item 4 of the SME Transactions Act).

Even where the SME Transactions Act does not apply, if a production committee, in commissioning production, requires assignment of copyright together with delivery of the work and, by leveraging its abuse of superior bargaining position, compels the prime production company to assign copyright at an unreasonably low consideration, thereby causing unjust disadvantage contrary to normal commercial practice, such conduct constitutes a violation of the Anti-Monopoly Act (abuse of superior bargaining position) (Article 2,

Paragraph 9, Item 5(c) of the Anti-Monopoly Act).

Where copyright vests in the production committee from the outset, it does not form part of the "content of the benefit" provided by the prime production company, and the foregoing issues do not arise.

2 Performance of transactions

(1) Order cancellation

A Actual conditions

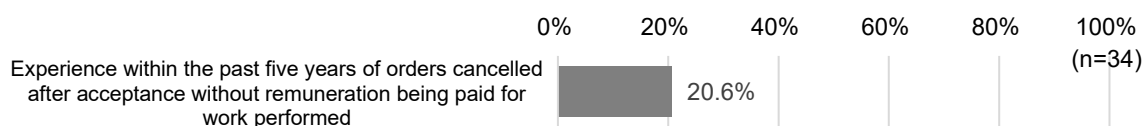
In the questionnaire survey of prime production companies, as shown in Figure3-17, approximately 20% reported that within the past five years an order had been cancelled after acceptance and that no remuneration was paid for work already performed.

In interviews, production committees responded that "if production of a film is suspended or canceled, we will pay the costs of staff and other personnel being retained for at least one month." On the other hand, prime production companies responded that "when a project is canceled or postponed, the prime production company needs to compensate remuneration for clients and freelancers to some extent, but sometimes the production committee that decided to cancel or postpone the project does not cover the costs," and "sometimes projects that have been planned, developed, and committed to production are canceled, but no major companies will pay the costs of planning and development or for standby personnel."

In addition, when an order is canceled, one respondent stated that "when a transaction is suddenly canceled, it is difficult to immediately start a new transaction."

Trade associations responded that when an order is canceled, the prime production company must make payments to subcontracted production companies and freelancers, including cancellation remuneration, but that the production committee does not fully reimburse them for the initial costs. They also responded that the impact on the management of prime production companies is significant, saying "even prime production companies that have produced hits would go bankrupt if two orders are canceled in a row."

Figure3-17 Experience within the past five years of orders cancelled after acceptance without remuneration being paid for work performed⁶²



*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years

Source: Created based on survey results

⁶² The figure represents the percentage of companies that responded that they had experienced the conduct at least once within the most recent five fiscal years and does not indicate the proportion of transactions in which such conduct occurred.

[Interview excerpt (14)]

<Production committee>

- When production of a film is suspended or canceled, we take appropriate measures, such as paying the costs of staff and other staff members being retained for at least one month, or arranging for them to be put on the next project or other projects.

<Prime production company>

◆ Experience with order cancellations

- Many film productions were suspended or canceled due to the COVID-19 pandemic, but no compensation was provided by production committees.
- When a project is canceled or postponed, the prime production company needs to compensate remuneration for clients and freelancers to some extent. However, while production committees that decide to cancel or postpone a production may provide the funds for compensation, they may also not pay anything at all. For example, even if the decision to produce a film has already been made verbally and a staff has been assembled to start production (or preparations for production), the production committee may say, "we haven't even signed a contract yet, so it's your own fault that you've hired people," and refuse to cover the costs. The planning alone takes years, and even for the prime production company, it is difficult to immediately start a new deal if a deal is suddenly canceled.

◆ Order cancellations during the planning and development stage

- There are cases where a project that has been planned, developed, and confirmed for production is canceled, but no major company will pay for the costs of planning and development or standby personnel. From planning to production, there are human costs involved, such as attending multiple planning meetings and conducting research. We are trying very hard to negotiate to get them to pay even a small amount, but it would normally be difficult.
- Sometimes a project is cancelled when production preparations are already underway, and in this case the full cost is borne by the prime production company.

<Trade associations>

- The production committee may allow the prime production company to contribute funds to pay cancellation compensation to the staff, but will not pay cancellation fees to the prime production company. I think both staff and the prime production company have the same need to be compensated for the time lost due to cancellations. From the perspective of the staff, this means that the prime production company has canceled the order (to the staff), so paying the staff is a contractual obligation of the production company, and payments will be made to the staff regardless of whether money is provided by the production committee or not. If this is not done, they will never be able to make a film in this small industry again. If

payments are delayed, the information is quickly shared among other prime production companies and staff, and the prime production company is seen as having questionable cash flow, staff refuse to take on work, and subcontracted production companies demand immediate payment. As a result, they are unable to gather staff, and because they are basically running on a shoestring, they are unable to pay subcontracted production companies, are unable to produce films, and actually go bankrupt.

- The business of prime production companies is such that the cycle of a single contract is long, and if an order is canceled, it is difficult to find the next job immediately, so the damage caused by the cancellation of an order is enormous. Even a prime production company that has produced hit films would go bankrupt if two orders are canceled in a row.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

The questionnaire survey of prime production companies indicated that within the past five years, only a minority had experienced cancellation of an order after acceptance without payment for work performed. However, interviews with prime production companies included statements that planned projects that have been approved for production may sometimes be canceled, but no major company pays for planning or standby personnel, reflecting cases in which a production committee cancelled a production commission and did not bear the costs incurred by the prime production company up to that point. Moreover, even in situations where specific costs have not yet been incurred (such as prior to the commencement of production) some respondents noted that "when a transaction is suddenly canceled, it is difficult to immediately start a new transaction." This suggests that cancellation of an order may disadvantage the prime production company even at a pre-production stage.

Where a transaction falls within the scope of the Act on Specified Transactions between Contractors and Subcontractors (the "The SME Transactions Act"), if a production committee (as a constituent business) cancels an order without reasons attributable to the prime production company, or fails to bear the costs associated with work already performed, thereby unjustly harming the prime production company's interests, such conduct may constitute a violation of the Act (unjust modification of the content of benefits) (Article 5, Paragraph 2, Item 3).

In determining whether the prime production company's interests have been unjustly harmed, it is necessary to assess comprehensively factors such as the losses incurred by the prime production company as a result of changes in the content of benefits, including expenses borne by it, and the extent of costs assumed by the production committee (constituent businesses) in response to those losses⁶³.

⁶³ Where it is recognized that the prime production company's interests have not been unjustly harmed (for example, because the

Even where the SME Transactions Act does not apply, if a production committee (as a constituent business) abuses its superior bargaining position by canceling an order without justifiable grounds and refusing to bear costs incurred up to the time of cancellation, thereby imposing an unfair disadvantage on the prime production company in light of normal commercial practices, such conduct may constitute abuse of a superior bargaining position under the Antimonopoly Act (Article 2, Paragraph 9, Item 5(c)).

(2) Additional payment of production commission fees

A Actual conditions

(A) Overview

a Incidence of additional costs

The questionnaire survey of prime production companies found, as shown in Figure3-18, that more than 70% of prime production companies had experienced additional production costs within the past five years, indicating that additional expenditures arise in the majority of film productions. The following principal reasons for additional costs were identified: the production period was extended; there were changes to the content by the director or production committee; bad weather or injuries or illnesses of cast members, which led to a rise in labor costs and outsourcing costs; and there were many uncertainties.

b Negotiations concerning additional costs

As shown in Figure3-19, prime production companies may negotiate with production committees for payment of additional production commission fees when additional costs arise, and approximately 80% responded that they had "often been able to negotiate" over the past five years, indicating that negotiations are conducted in the majority of cases.

In interviews, prime production companies stated that "it is important that each member of the production committee can explain additional costs within their own companies. Generally, in most cases, additional production commission fees are not paid, but our company is negotiating tenaciously and logically." However, there were also responses such as "since the responsibility for guaranteeing completion lies with the prime production company, even if additional production commission fees are required, we are unable to make the decision to cancel production or negotiate, which puts us in a weak position."

production committee [constituent entrepreneurs] has borne the expenses or losses incurred by the prime production company due to changes in or redoing of the deliverables) the conduct will not constitute a violation.

From the standpoint of dispute prevention, production committees (constituent entrepreneurs) and prime production companies may consider stipulating in advance, (through mechanisms such as a "cancellation policy"), whether payment will be made by the production committee to the prime production company in the event of cancellation of a service commission, and if so, the amount of such payment. However, care must be taken, as depending on how such payment terms are structured, they may give rise to issues under the SME Transactions Act, including unfair price reduction or unjust modification of the content of benefits.

In addition, in cases involving manufacturing consignment, repair consignment, or the creation of information-based deliverables, even if a cancellation policy has been agreed in advance, where the goods or deliverables have already been completed, the commissioning party must accept the goods and pay the agreed consideration by the predetermined due date, unless there is a reason attributable to the prime production company. (See Japan Fair Trade Commission website, "Frequently Asked Questions Q52" (published December 24, 2025) (Japanese))

c Allocation of additional costs

As mentioned above, it appears that prime production companies have been able to negotiate with production committees regarding the payment of additional costs in most cases. However, in a survey of prime production companies regarding the payment of additional costs from production committees, they stated, as shown in Figure 3-20, that approximately 40% of respondents answered that in the past five years, they were "often paid in full," while approximately 20% answered that they were "only paid in part but often satisfied with the amount." On the other hand, approximately 30% of respondents indicated that they were "only paid a portion of the amount, but often not satisfied with the amount," while approximately 10% were "often not paid at all." This suggests that even if negotiations are possible, there are a certain number of cases in which the prime production company is not able to obtain satisfactory results.

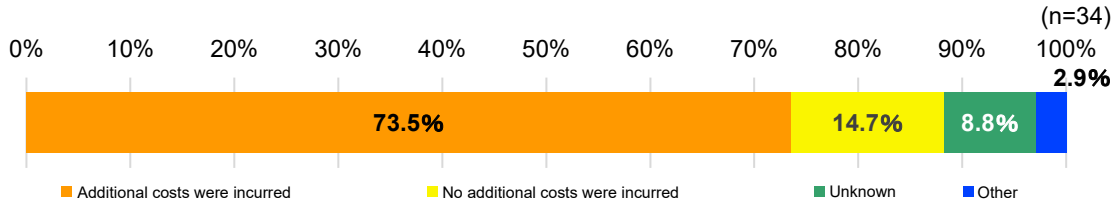
In interviews, the production committee responded that, as a general rule, the prime production company will not pay additional costs because it has an obligation to guarantee completion within the production commission costs of the initial contract. However, they also responded that if additional costs arise for reasons that are clearly not the prime production company's responsibility, such as a typhoon or earthquake, the production committee may be exempt from liability (by providing an additional budget or canceling filming, etc.), and that they may cover (part of) the additional costs.

The prime production company responded that "except in the case of natural disasters or other such events, the production committee rarely makes additional payments even if the production commission fee is insufficient." They added that "the production committee's argument is that if the budget is managed properly, it should be possible to make a profit. However, it is extremely difficult to control the budget when the production committee specifies the screenplay, budget, and in some cases the director, and the obligation to guarantee completion within the budget seems unreasonable."

It was also noted that because a production committee comprises multiple member companies and each member must obtain internal approval, there are cases in which the committee is unable to authorize payment of additional costs, suggesting that structural features specific to the production committee system may impede such payments.

Furthermore, prime production companies said that "even if additional production commission fees are paid, this will be considered a payment for the shortfall, so there will be no gross profit and our company will not make any profit," indicating that even if the full amount of additional production commission fees is paid, the prime production company may still not generate any profit.

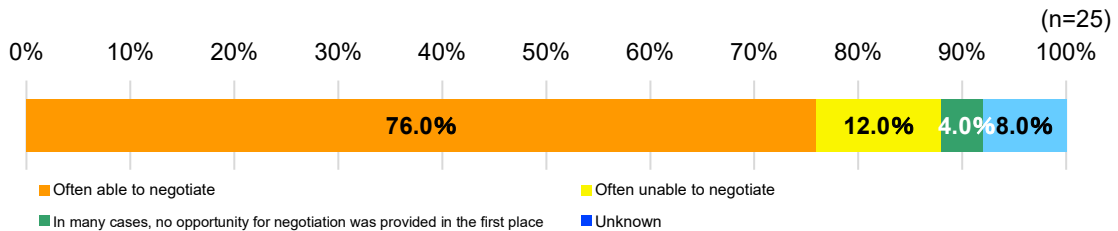
Figure3-18 Whether additional production costs were incurred over the past five years⁶⁴



*Prime production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

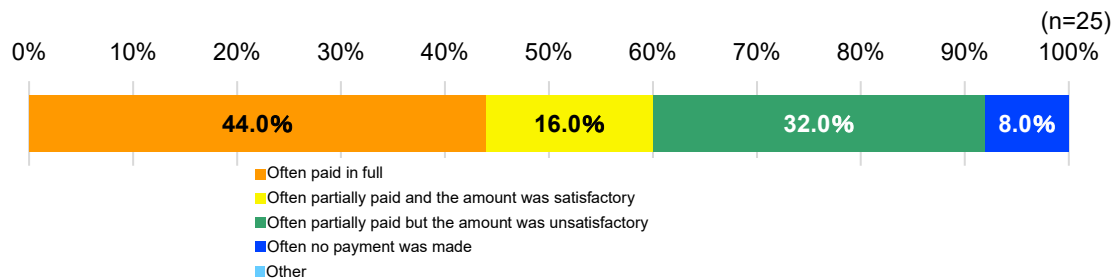
Figure3-19 Whether negotiation over payment of additional production commission fees was possible over the past five years⁶⁵



*Prime production companies were asked to respond regarding trends over the past five fiscal years.

Source: Created based on survey results

Figure3-20 Whether additional costs were paid during the past five years⁶⁶



*Prime production companies were asked to respond regarding trends over the past five fiscal years.

Source: Created based on survey results

⁶⁴When respondents were asked to specify the nature of "additional costs," the principal responses and the number of similar responses were as follows (each number includes responses of similar meaning):

- Increase in production days: 5 cases
- Changes in content by the director or production committee: 5 cases
- Bad weather and injuries to cast members: 4 cases
- Labor costs, fuel costs, and rising prices: 2 cases
- Suspended or postponed due to the COVID-19 pandemic: 2 cases
- Occurrence of numerous uncertainties: 2 cases

⁶⁵The following responses were submitted in the free-text field under "Other."

- Negotiate but cannot come up with a satisfactory answer (budget)

⁶⁶ The number of "Other" responses was 0.

[Interview excerpt (15)]

<Production committee>

- The production committee imposes an obligation on the prime production company to guarantee completion. Therefore, unless there are extraordinary circumstances, the prime production company is obligated to deliver within the scope of the production commission fee originally determined. A serious incident refers to a natural disaster such as an unforeseen event like COVID-19.
- Generally, prime production companies are obligated to complete the production within the production commission fee set out in the initial contract, a so-called completion guarantee obligation, and in cases where the production is clearly not at fault, such as a typhoon or earthquake, they can be exempted from liability (the production committee can provide additional budget or cancel filming, etc.). However, apart from such cases, even if the filming period is extended or costs increase, it is still the prime production company's responsibility, and the production committee will not often provide additional budget. Since production committee members must make decisions unanimously, it is difficult to provide additional production commission fees. In this regard, I think it is true that the prime production company is in a weak position.
- The production commission fee will be discussed at the ordering stage, but if the production commission fee increases significantly after the order is placed, we believe we will have to comply. There have been cases in the past where additional costs have been incurred due to force majeure, and in some cases our company, as the managing company, has paid the excess costs.
- If production costs increase more than initially expected, it is possible that additional production commission fees may be contributed. A contingency fund may be set aside to accommodate requests for additional production commission fees; if the reason is not the fault of the prime production company, such as unforeseen circumstances such as weather or an accident on set, or if the director requests additional filming at a location that was not originally planned, additional production commission fees are often paid.
- Because production committees operate on a unanimous-decision basis, obtaining approval to amend contractual terms is difficult. Accordingly, within a production committee, a decision to approve payment in excess of the production commission fee agreed at the time of contracting is difficult to obtain. In some instances, the lead company bears additional costs on its own; however, because doing so would increase its investment ratio, opposition from other members may make unilateral additional expenditure impracticable.

<Prime production company>

◆Cases where additional production commission fees are negotiated, including cases where the production committee bears part of the costs

- Unexpected costs incurred due to accidents beyond the control of the prime production company, such as cast members taking time off due to illness or bad weather, may be paid additionally by the production committee. On such occasions, an additional memorandum of understanding is signed with the production committee during filming. The production services agreement includes language

such as "You can consult with the production committee regarding additional costs in unavoidable cases." On the other hand, you will not be able to recover any additional costs caused by your own negligence.

- It is important that each member of the production committee can explain additional costs within their own companies. Generally, in most cases, no additional production commission fees are paid, but because our company negotiates tenaciously and logically, I believe we are in a position to receive additional fees from the production committee.
- There may be cases where production costs increase due to factors such as a longer production period, but if there is no defect on our part, additional production commission fees may be approved. For example, there are cases where the director brought in by the production committee does not listen to instructions, there are delays due to weather, or there is a bad relationship between the director and the client-selected lead actor, which results in additional production days.

◆Cases where additional production commission fees cannot be adequately negotiated

- A common contract stipulates that if the production commission fee falls short due to reasons on the part of the prime production company, the prime production company will bear the shortfall. On the other hand, if the production commission fee falls short due to reasons not attributable to the prime production company, the contract will state that "Parties A and B will discuss the matter separately" rather than "the production committee will bear the cost." However, as you can imagine from the fact that it does not clearly state that "the production committee will bear the cost," there is no way that a production committee would bear the cost, regardless of the reason, and there is no example of them having done so. Natural disasters are an example of a reason that is not the responsibility of the prime production company, but even when filming was prevented due to rain for a week, the production committee did not provide compensation, claiming that this was due to reasons on set.
- In Japan, directors have traditionally been very strong, and their insistence can sometimes result in a loss. However, if the production committee were to negotiate additional production fees for this reason, it would create a bad impression, so the prime production company would have no choice but to bear the cost.

◆Completion guarantee obligation

- When a production committee places an order for production, the gross profit of the prime production company is included in the production commission fee. On the other hand, the prime production company is obligated to guarantee completion within the production commission fee, so if the budget is exceeded, the first thing they do is cut the gross profit included in the production commission fee. In some cases, gross profit is eaten up and the production ends up at a loss.
- Under the contract with the production committee, the prime production company is obligated to guarantee completion. The term "completion guarantee" is used to mean that "since the prime production company is obligated to guarantee completion, no additional costs will be paid beyond the contract amount unless extraordinary

circumstances arise."

- In Japanese film production, the prime production company is responsible for guaranteeing completion. Japan is the only country where the prime production company, who is not the content holder (and ultimately does not own the copyright), is responsible for guaranteeing completion. Because the responsibility for guaranteeing completion lies with the prime production company, even if additional production commission fees are required, they are unable to decide to cancel production or negotiate, putting them in a weak position.
- Because the prime production company is responsible for guaranteeing completion, except in the case of natural disasters or other such events, the production committee rarely makes additional payments even if the production commission fee is insufficient.
- In cases where production costs exceed the production commission fee, we opposed the draft contract and insisted that the production committee should bear the cost if the prime production company was not responsible, but this was not accepted.
- The production committee's argument is that if the budget is managed properly, it should be possible to make a profit. However, it is extremely difficult to control the budget when the production committee specifies the screenplay, budget, and in some cases the director, and the obligation to guarantee completion within the budget seems unreasonable.

◆Other

- When we produced one work, the production costs far exceeded the initial budget, and there were so many uncertainties that we were about to give up on the project. However, the production committee asked us to take it on, so we accepted the order and were able to increase the production commission fee to cover the shortfall. The production commission fee includes gross profit, but when the budget is exceeded, the gross profit is already eaten up, and even if additional production commission fees are paid, this will only amount to paying the shortfall, so no gross profit will be paid and our company will not make a profit.
- It was considered wrong for the prime production company to bear additional costs when it was not responsible for them, so the Japan Film Makers Association worked hard to create a template contract that included a clause in the Japan Motion Picture Production Standards Association Guidelines stipulating that the production committee and prime production company would hold discussions if additional costs were to arise. It is not often used in actual contracts, but I have heard that some managing companies have started using it in recent years.

(B) Specific issues (where the prime production company is not at fault)

As noted in Section (A)-a above, the questionnaire survey of prime production companies identified the following principal reasons for additional costs: the production period was extended; there were changes to the content by the director or production committee; bad weather or injuries or illnesses of cast members, which led to a rise in labor costs and outsourcing costs; and there were many uncertainties. With respect to payment by production committees for additional costs incurred in circumstances not attributable to the prime production company, the questionnaire survey and interviews yielded the following

results:

a Extension or postponement of the production period

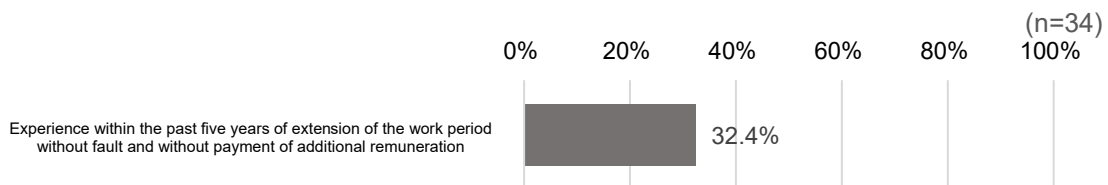
In film production, freelancers may be contracted under monthly remuneration arrangements during the production period. Accordingly, where the production period is extended, prime production companies may be required to incur additional personnel costs etc. associated with the extension.

In the questionnaire survey of prime production companies, as shown in Figure3-21, approximately 30% responded that within the past five years they had experienced a case in which "the work period was extended for reasons not attributable to themselves, but no additional remuneration was paid."

In interviews, production committees responded that "if the weather is extremely bad, shooting may be extended by a few days; however, if it is only for a few days, the initial production commission fee is calculated with some leeway at the determining stage." On the other hand, there was also a response that "if additional production commission fees become necessary due to force majeure such as an accident involving a cast member, we will discuss this with the prime production company."

Prime production companies responded that "after deciding on the shooting period, the production committee's managing company sometimes asks us to use cast members who are not able to film due to the schedule; this affects our future relationship, so our only option is to extend the shooting period and cover the additional costs for the staff."

Figure3-21 Experience within the past five years of extension of the work period without fault and without payment of additional remuneration.⁶⁷



*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (16)]

<Production committee>

- If the weather is extremely bad, such as typhoons and torrential rain, shooting may be extended by a few days; however, if it is only for a few days, the initial production commission fee is calculated with some leeway at the determining stage (not included in the scope of the contingency fund.).
- Cases where discussions with the prime production company are held when additional production commission fees become necessary due to force majeure such

⁶⁷ The figure represents the percentage of companies that responded that they had experienced the conduct at least once within the most recent five fiscal years and does not indicate the proportion of transactions in which such conduct occurred.

as an accident involving a cast member have been conducted as standard practice, regardless of the existence of the Japan Motion Picture Production Standards Association Guidelines. We understand that the contract template in the Japan Motion Picture Production Standards Association Guidelines is a codification of this practice. There were postponements and cancellations during the COVID-19 pandemic, and since then it has become customary to hold discussions with the prime production company in particular.

- Since it is impossible to foresee injuries or illnesses among cast members, in such cases we would like to be flexible in deciding on increases to the production commission fees after consultation.

<Prime production company>

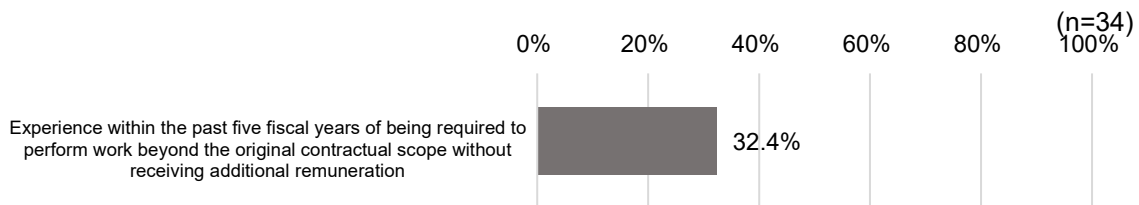
- Productions were postponed or cancelled during the COVID-19 pandemic in particular, and postponements are difficult. Basically, our contracts with staff are on a monthly basis, so we would have to cover the staff expenses for the length of the postponement. However, even though the postponement was three months, the production committee only covered one month's expenses. The production was completely at a loss.
- After deciding on the shooting period, the production committee's managing company sometimes asks us to use cast members who are not able to film due to the schedule. When we are told something like that after the decision to start filming has been made, we cannot cancel production as it is the prime production company's responsibility, and it also affects our future relationship, so our only option is to extend the shooting period and cover the additional costs for the staff.
- The contracts with the cast are signed by the prime production company, and the cast's fees are paid from the production commission fee, but there have been cases where television broadcasters on the production committee has asked them to use a famous actor but did not paid the excess amount even though the budget has been exceeded. When it comes to super-famous actors, overall costs increase in addition to their fee, including hotel fees and transportation. Also, shooting was originally scheduled to take place from January to mid-February, but the famous actor was only available in March, which extended the preparation and shooting period, resulting in the prime production company losing 30 million yen. We managed to survive by borrowing money from the bank.
- Although the initial schedule includes extra days to allow for bad weather, shooting can sometimes extend beyond the extra days, and the contract terms often do not clearly state who should bear the resulting additional costs: the prime production company or the production committee.

b Performance of work inconsistent with the contract

In the questionnaire survey of prime production companies, as shown in Figure3-22, approximately 30% responded that within the past five years they had been required to perform "work different from the original contractual content, without receiving additional remuneration."

In interviews, prime production companies responded that "in recent years, some production committees have been willing to negotiate, and I feel that things are improving compared to the past," but also stated that "after the contract is signed, the production committee sometimes gives additional instructions that were not originally stated, and even if these instructions increase production costs, the additional expenses are sometimes not paid. In our case, there were times when the screenplay, filming locations, and cast were changed at the direction of the production committee after the fact, and we were also required to produce master tapes for the overseas version after the film was made, so we had to bear the costs of these."

Figure3-22 Experience within the past five fiscal years of being required to perform work outside the original contractual scope without receiving additional remuneration.⁶⁸



*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years
Source: Created based on survey results

[Interview excerpt (17)]

<Prime production company>

◆ Examples where additional production commission fees may be paid (in part)

- After the production commission fee has been decided through negotiations with the production committee, the production committee may subsequently impose conditions (such as high-quality hotels and meals for the lead actors), and in such cases the prime production company has no choice but to cover the additional costs by cutting its gross profit. If the amount becomes too high, we negotiate with the production committee, but they ask us cover the cost. However, in recent years, some production committees have been willing to negotiate, and I feel that things are

⁶⁸ The figure represents the percentage of companies that responded that they had experienced the conduct at least once within the most recent five fiscal years and does not indicate the proportion of transactions in which such conduct occurred.

improving compared to the past.

◆ **Examples where additional production commission fees are not paid**

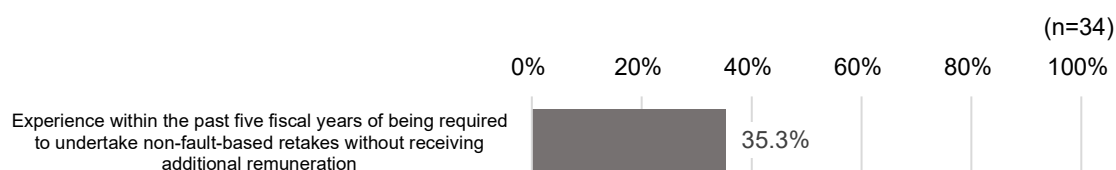
- After the contract is signed, the production committee sometimes gives additional instructions that were not originally stated, and even if these instructions increase production costs, the additional expenses are sometimes not paid. In our case, there were times when the screenplay, filming locations, and cast were changed at the direction of the production committee after the fact, and we were also required to produce master tapes for the overseas version after the film was made, so we had to bear the costs of these.
- Even after the script has been finalized and the production commission fee has been determined, the production committee may interfere and increase production costs. For example, changing the shooting location from Tokyo to Hokkaido. If the location is remote, expenses such as travel and accommodation costs will increase, but even in this case, the production committee will not provide additional production commission fees, and the burden will be passed on to the prime production company by cutting their gross profit.
- After the production commission fee has been decided, there are cases where the production committee wants to add a big-name cast member to the project later due to its own convenience, but even in such cases, the production committee will not approve an increase in the production commission fee, so it is necessary to make do within the initial production commission fee.
- There have been several times when the production committee has asked us to create behind-the-scenes footage or subtitles, which were not part of the original contract, after the contract was signed, and we have been forced to do so. Even when we negotiated on that occasion, we were told that "it's naturally included in the production commission fee," so we had no choice but to take the relationship into consideration.

c Retakes

In the questionnaire survey of prime production companies, as shown in Figure3-23, approximately 40% responded that within the past five years there had been cases in which "retakes not attributable to themselves were required, but no additional remuneration was paid."

In interviews, production committees responded that "if the production commission fee increases in response to a request from the director, the production committee may agree to pay." Prime production companies responded that directors who are directly contracted or designated by the production committee often request retakes, but that the production committee does not cover the additional production commission fees. They also responded that retakes are sometimes requested by the production committee, but although the party requesting the retake should in principle cover the costs, in many cases the prime production company covers them.

Figure3-23 Experience within the past five fiscal years of retakes not attributable to oneself without additional remuneration being paid.⁶⁹



*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years
 Source: Created based on survey results

[Interview excerpt (18)]

<Production committee>

- If the production commission fee increases in response to a request from the director, the production committee may agree to pay. In such cases, we may ask each company to bear additional costs in proportion to their investment percentage. However, due to our responsibility as the manager of the production committee, we sometimes bear the costs alone, which may result in an increase in our investment percentage.

<Prime production company>

- Directors are expected to produce high quality work, so many of them request redoing of CG and finishing touches, which means the prime production company has to pay additional costs to subcontracted production companies and freelancers. Since the director is contracted directly or designated by the production committee, we consult with their producer about ways to improve the director's work. However, even though they are unwilling to provide much additional funding, they still approve, saying "that way is better." Therefore, the producer of the prime production company cannot stop the director from ordering redoing the work, even if there is no budget. Even if spending ends up being more than originally expected, as long as the production committee and director demand higher quality, the prime production company has no choice but to accept the increased costs.

- Directors are often appointed by the production committee. The production committee likely wants to choose a popular director for box office reasons, but as the prime production company, we have little relationship with the director and are unable to stop their excessive demands. Some production committees will help persuade the director and provide additional funding, but on the other hand, there are also production committees that say it is the prime production company's job to control the director and will not provide any additional funding. The ratio is half and half.

⁶⁹ The figure represents the percentage of companies that responded that they had experienced the conduct at least once within the most recent five fiscal years and does not indicate the proportion of transactions in which such conduct occurred.

- Retakes are sometimes requested by the production committee, and although the party requesting the retake should be responsible for the costs, in many cases the prime production company bears the costs.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

In the questionnaire survey of prime production companies, as shown in Figure3-18, approximately 70% responded that during the past five years there had been cases in which "additional costs were incurred." Some respondents indicated that additional production commission fees are paid following consultations between the production committee and the prime production company; however, others reported that even where the additional costs were not attributable to the prime production company, the production committee did not pay them.

Where a transaction falls within the scope of the SME Transactions Act, if the production committee (i.e., its constituent entrepreneurs), despite there being no reason attributable to the prime production company, causes the prime production company to postpone or extend the production period, perform work different from that under the original contract, or demand reworking (retakes), and thereby additional costs are incurred by the prime production company, if it fails to pay those increased costs⁷⁰ to the prime production company or otherwise unjustly harms the interests of the prime production company, this constitutes an issue under the SME Transactions Act (unjust modification of the content of the performance and unjust reworking) (Article 5, Paragraph 2, Item 3⁷¹).

In commissions involving the creation of information-based deliverables such as film production, whether the deliverables satisfy the commissioned scope and meet acceptance criteria may depend in part on the production committee's evaluative judgment, and in some cases it is not feasible to specify clear inspection standards in advance in a purchase order etc. In such an environment where standards are unclear, it is considered that additional costs or extensions to the production period may arise, for example, stemming from requests by the director or others. In some cases, it may be that the production committee, as the party that has contracted with the director or others, did not communicate sufficiently with the director or others to prevent excessive demands. In other cases, it may be that the prime production company did not adequately manage quality, schedule, or budget. Therefore, the responsibility for each work may differ. In addition, there are cases where responsibility is unclear, such as when it is not clearly defined between the production committee and the prime production company.

In such circumstances, when the production committee (i.e., its constituent entrepreneurs), regardless of whether acceptance has occurred, requires a retake on the grounds that the prime production company's performance differs from the originally commissioned scope, even though the relevant standards could not necessarily be clarified in advance, it must not unilaterally determine the cost allocation in a manner that unjustly harms the prime production company's interests; instead, taking into account the circumstances leading to the retake, it must engage in sufficient consultation with the prime production company and determine a reasonable allocation of costs⁷².

⁷⁰Prime production companies responded that "even if we receive additional production commission fees, this will only amount to a payment for the shortfall so there will be no gross profit, and as a result, our company will not make any profit." In addition to material costs, labor costs, and the like, general administrative expenses and other expenses must also be taken into consideration appropriately.

⁷¹ If, without any reason attributable to the prime production company, the production committee causes the production period to be extended and the prime production company incurs additional costs, yet the production committee fails to pay additional remuneration or otherwise harms the prime production company's interests, such conduct may also constitute a reduction of payment under Article 5, Paragraph 1, Item 3 of the SME Transactions Act).

⁷²See Japan Fair Trade Commission, "Operational Standards for the SME Transactions Act," Part IV, 8(4), and "Text on the Act on Proper Transactions with Small and Medium-Sized Entrusted Business Operator," p.107.

Even where the SME Transactions Act does not apply, if the production committee (i.e., its constituent entrepreneurs) abuse(s) its superior bargaining position by requesting a retake without justifiable grounds or unilaterally changing transaction terms, thereby imposing an unjust disadvantage on the prime production company in light of normal business practices, such conduct constitutes abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act).

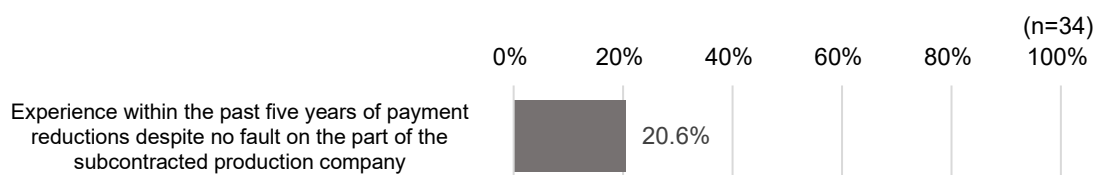
(3) Reduction of payment

A Actual conditions

In the questionnaire survey of prime production companies, as shown in Figure3-24, approximately 20% responded that during the past five years they had experienced "a reduction in payment despite no fault on their part."

In interviews, prime production companies responded that the fee that had been decided at the ordering stage was reduced by half at the time of payment. Trade associations responded that "at least for large, publicly listed companies, such cuts are unlikely."

Figure3-24 Experience within the past five years of payment reductions despite no fault on the part of the subcontracted production company.⁷³



*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (19)]

<Prime production company>

- The fee was decided at the ordering stage, but when we received payment after delivery, we were asked to reduce the fee to half the original amount, and we had no choice but to accept it. The reason was that the production team was unable to raise the funds. Actually putting on a show requires a significant amount of money, and even when funds are lacking, attracting people is often prioritized during the planning stage. As a result, it is common that, in the end, less money is raised than expected.

⁷³ The figure represents the percentage of companies that responded that they had experienced the conduct at least once within the most recent five fiscal years and does not indicate the proportion of transactions in which such conduct occurred.

<Trade associations>

- At least for large, publicly listed companies, such cuts are unlikely, and they cannot do so.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

In the questionnaire survey and interviews of prime production companies, some responded that during the past five years they had experienced "a reduction in payment despite no fault on their part."

Where a transaction falls within the scope of the SME Transactions Act, if the production committee (i.e., its constituent entrepreneurs) reduces the payment despite there being no reason attributable to the prime production company, this constitutes an issue under the SME Transactions Act (reduction of payment) (Article 5, Paragraph 1, Item 3).

Even where the SME Transactions Act does not apply, if a production committee (i.e., its constituent entrepreneurs), by abusing its superior bargaining position, reduces the contractually agreed consideration without justifiable grounds and thereby causes a prime production company to suffer an unjust disadvantage in light of normal business practices, this constitutes an issue under the Anti-Monopoly Act (abuse of superior bargaining position) (Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act).

(4) Late or non-payment

A Actual conditions

In the questionnaire survey of prime production companies, as shown in Figure3-25 and Figure3-26, approximately 20% responded that during the past five years there had been "delayed payment (payment of production commission fees made more than 60 days after delivery or beyond the contractual due date)," and that there had been "non-payment of remuneration."

In interviews, prime production companies responded that payment is sometimes delayed from the contractual payment date, and that they have shot and delivered the film but not received payment of the production commission fee.

Trade associations responded that "payment delays do not arise from procedural bottlenecks within the production committee itself. If there is a delay in payment, it will likely be due to a procedural issue within the lead manager company."

Figure3-25 Experience within the past five years of payment delays despite no fault on the part of the prime production company⁷⁴

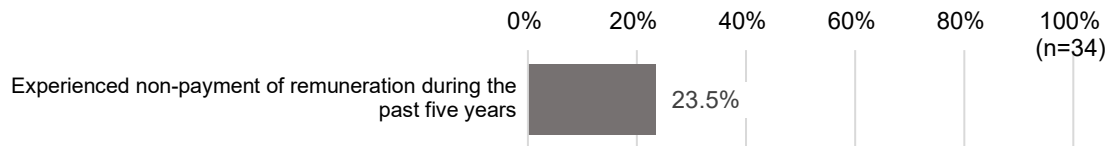


*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years

Source: Created based on survey results

⁷⁴ The figure represents the percentage of companies that responded that they had experienced the conduct at least once within the most recent five fiscal years and does not indicate the proportion of transactions in which such conduct occurred.

Figure3-26 Experience within the past five years of non-payment despite no fault on the part of the prime production company⁷⁵



*Prime production companies were asked whether they had experienced such conduct at least once within the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (20)]

<Prime production company>

- Under the contract, the payment of production commission fees is generally divided into four installments: the preparation stage (which takes about two to three months), the start of filming, the end of filming, and delivery. Deposits may be delayed due to internal circumstances of the managing company. For example, one company may have a strong publishing division, which means that the weaker film division is reluctant to express a desire to spend its budget quickly.
- There was a case where we were suddenly commissioned to work on a project, and we worked on it, shot it, and delivered it without signing a contract, but the production commission fee was not paid.
- The deal involved the television broadcaster acting as the managing company, and a contract was signed and remuneration was determined. However, even after delivery, the production commission fee was not transferred. When we called the other party to inquire, we was told that they were "currently stuck in internal discussions, so please wait a little longer." We have not been able to get in touch with them since, and they have still not paid.

<Trade associations>

- Payment delays do not arise from procedural bottlenecks within the production committee itself. If delays occur, they are likely attributable to internal procedures within the managing company.
- Under the SME Transactions Act, payment must be made within 60 days of delivery of the final product, but in the case of films, shooting cannot take place without paying the running costs to the prime production company, so it is common to make payments in installments. The standard contract in the Japan Motion Picture Production Standards Association Guidelines envisages payment being made in four stages: 1) when preparations begin, 2) when filming begins, 3) when filming ends, and 4) after the final product is delivered. Making payments without the delivery of the final deliverable poses a risk if the prime production company goes bankrupt, but because we have a mutually beneficial relationship with the prime production company, we pay in installments.

⁷⁵Same as above.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

In the questionnaire survey of prime production companies, although limited in number, as shown in Figure3-25, Figure3-26, there were prime production companies that responded that during the past five years there had been "delayed payment" or "non-payment" by production committees.

In interviews, prime production companies reported instances of payment delays and non-payment, such as that payment is sometimes delayed from the contractual payment date, and that they have shot and delivered the film but not received payment of the production commission fee.

If a production company does not receive payment by the due date for information-based deliverables it has supplied, it may face cash-flow constraints, encounter difficulty paying remuneration to employees and freelancers, and in the worst case be driven into insolvency, thereby undermining business stability. Particularly in the film industry, as noted in Chapter 2, Section 2, 1(1)(a), many production companies are small in scale and lack substantial capital reserves; accordingly, such conduct may have a significant impact on their operational stability.

Where a transaction falls within the scope of the SME Transactions Act, if a production committee (i.e., its constituent entrepreneurs), regardless of whether it inspects the contents of the prime production company's performance, still fails to make payment after the expiration of the payment due date set within as short a period as possible and within 60 days from the date of receipt of payment (the date on which the deliverables were received from the prime production company)⁷⁶, this constitutes an issue under the SME Transactions Act (delay in payment) (Article 5, Paragraph 1, Item 2).

Even where the SME Transactions Act does not apply, if the production committee (i.e., its constituent entrepreneurs) abuse(s) its superior bargaining position by failing, without justifiable grounds, to pay the production commission fee by the contractual due date, thereby causing an unjust disadvantage to the prime production company in light of normal business practices, such conduct constitutes abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act).

⁷⁶If the parties fail to specify a payment due date, the date on which the deliverables are actually received is deemed the due date under Article 3, Paragraph 2 of the SME Transactions Act, and failure to pay by that date likewise constitutes delayed payment under the SME Transactions Act). In film production commission contracts, installment payments of the production commission fee may in some cases include due dates set prior to delivery; in such circumstances, failure to pay by each contractual due date constitutes delayed payment under the SME Transactions Act regardless of whether the deliverables have been accepted.

3 Transactions with video streaming companies

(1) Overview

As noted in Chapter 2, Section 1, 1(2), video streaming companies enter into license agreements with copyright holders of film productions for streaming on their own platforms and, in some cases, commercially produce and distribute original productions themselves. In the latter scenario, the video streaming company commissions film production to a prime production company.

With respect to production commission transactions between video streaming companies and prime production companies, the survey found that, for the matters described in Sections 1 and 2 above, conditions were generally more favorable than in transactions between production committees and prime production companies⁷⁷.

By contrast, whereas production royalties or success remuneration may be provided under the production committee model, such arrangements are generally not established in transactions with certain video streaming companies, indicating differences in contractual terms. Interview findings also reflected a range of views from production committees and prime production companies regarding the disclosure of information such as view counts, including in the context of license agreements for streaming rights with video streaming companies.

Accordingly, the following section outlines the status of transaction terms relating to production commission fees etc., as well as the status of information disclosure.

(2) Transaction terms relating to production commission fees etc.

A Actual conditions

(A) Methods for setting production commission fees

In a survey of prime production companies, regarding methods for determining production commission fees during the past five years, as shown in Figure3-27, approximately 50% responded that they "often reach agreement on production commission fees proposed based on necessary production costs (manufacturing costs)," and approximately 50% responded that they "often determine production commission fees within upper limits or unit prices presented by the business partner." With respect to negotiations over the amount of production commission fees, as shown in Figure3-28, just under 70% responded that they "were often able to negotiate."

Interview responses from both video streaming companies and prime production companies indicated that video streaming companies may bear the full production cost, cover planning and development expenses, and, where additional costs arise, engage in discussions based on the grounds presented by the prime production company and bear the excess amount.

A video streaming company responded that, separate from the production commission fee, it pays a fixed percentage of the production commission fee as general administrative expenses into a separate account, and a prime production company stated that, unlike under the production committee model, "profits are guaranteed and the scale is substantial, making this aspect highly attractive."

⁷⁷For example, the survey indicated that approximately 7% reported that there had been "retakes not attributable to themselves for which no additional remuneration was paid" (approximately 20% in transactions with production committees), and approximately 10% reported that there had been "extensions of the work period not attributable to themselves for which no additional remuneration was paid" (approximately 20% in transactions with production committees).

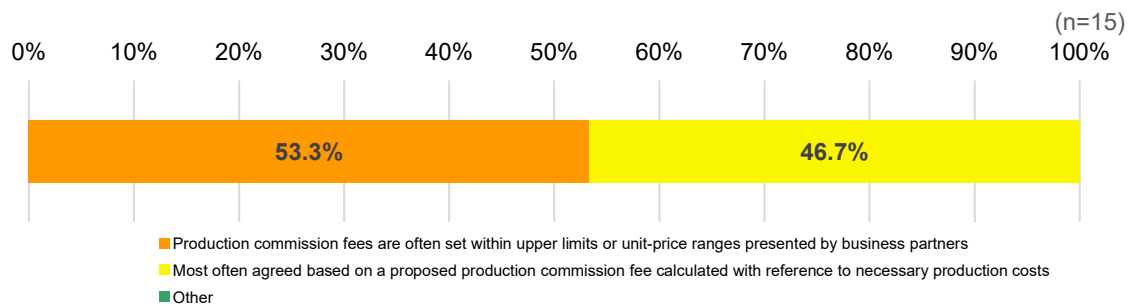
(B) Level of production commission fees etc.

In a survey of prime production companies, regarding satisfaction with the amount of the production commission fee, as shown in Figure3-29, just under 30% responded that they were "satisfied," and just over 40% responded that they were "dissatisfied."

In interviews, a video streaming company responded that, with respect to increases in production commission fees, "where a production proves successful and production of a subsequent season or sequel is decided, we take measures such as increasing the production commission fee (outsourcing fee) for creators in the subsequent season or sequel." With respect to remuneration other than production commission fees, while respondents stated that "such payments are not common," they also responded that "depending on individual negotiations, it is possible to agree to pay some form of additional remuneration," indicating that remuneration beyond production commission fees may be paid depending on negotiations.

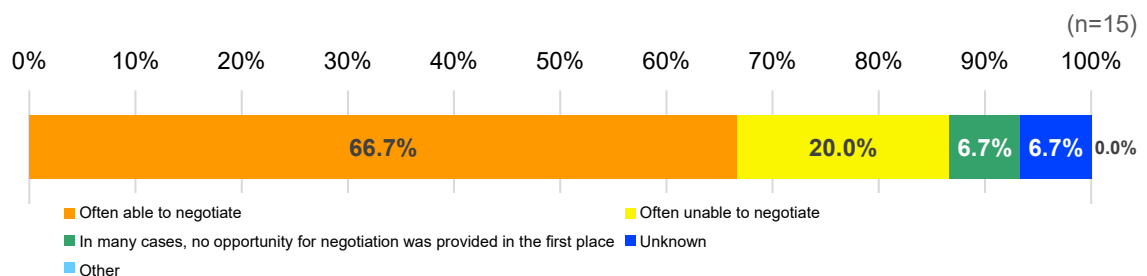
While prime production companies responded that "video streaming companies offer better terms than production committees," others said, "for large production companies, profits of tens of millions of yen seem small (even if profits are confirmed)."

Figure3-27 Methods for determining production commission fees over the past five years



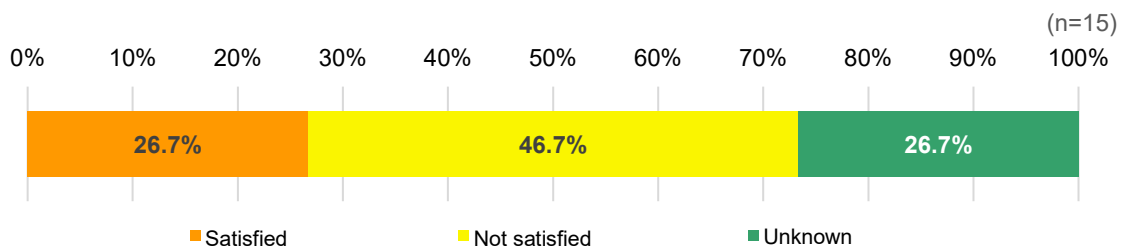
*Prime production companies were asked to respond regarding trends over the most recent five fiscal years
Source: Created based on survey results

Figure3-28 Whether the amount of production commission fees has been negotiable over the past five years



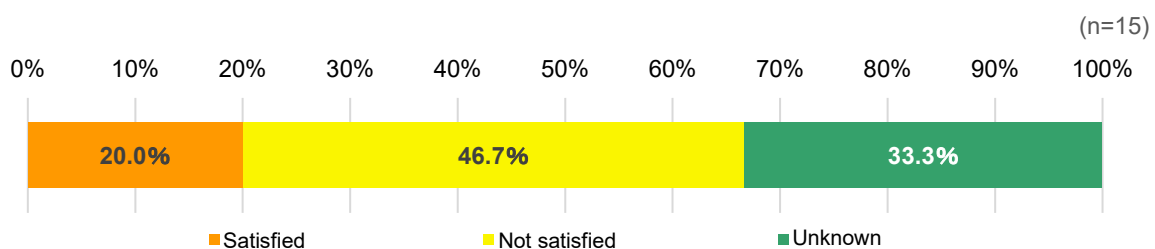
*Prime production companies were asked to respond regarding trends over the most recent five fiscal years
Source: Created based on survey results

Figure3-29 Satisfaction with the level of production commission fees⁷⁸



Source: Created based on survey results

Figure3-30 Satisfaction with remuneration other than production commission fees



Source: Created based on survey results

[Interview excerpt (21)]

<Video streaming companies>

◆Method and level of setting production commission fees

- The approach to determining production commission fees differs fundamentally from the Japanese production committee model. For large-scale projects, unlike the production committee model, the production commission fee is not determined on the premise of a fixed budget such as "please produce this for ¥○ billion"; rather, the prime production company is asked to calculate the production costs, several budget meetings are held, and in principle the production commission fee is determined based on that estimate.

- At our production operations, in the interest of accounting transparency, we request that the prime production company establish a separate bank account for each project, and by managing expenditures through that dedicated account, we maintain clarity regarding the recipients and amounts of all payments.

In addition, separate from the production commission fee, we pay the production company a fixed percentage of that fee as general administrative expenses into a clearly segregated account, thereby ensuring that the production company secures a profit. Under the production committee model, the obligation to guarantee completion may result in the production company bearing cost overruns, including by drawing

⁷⁸With respect to reasons for being "dissatisfied," the leading reasons were that "production costs (manufacturing costs) have increased as a result of higher required quality than before," "production costs (manufacturing costs) have increased as a result of longer production periods than before," and "increases in prices have not been passed on."

from general administrative expenses embedded within the production commission fee. By contrast, because we maintain separate accounts for production costs and administrative expenses, once production costs exceed the agreed budget the parties engage in consultations, and the administrative expense portion is not readily eliminated.

- Under the audiovisual production services agreement, we agree to bear the full production budget in exchange for the transfer of copyright in the production from the prime production company. In addition, we characterize a portion of the production commission fee as remuneration for the commissioned services, including the transfer of copyright, and pay a specified percentage of the total fee as such remuneration, depending on the project. The level of this remuneration is determined appropriately in light of factors such as the scale of the production, the production structure, and the budget.
- Because our business model is based on subscription agreements under which users pay monthly fees, individual productions are not directly tied to revenue, making it difficult to adopt a remuneration structure linked to the performance of a specific title.

◆ Planning and development expenses and additional expenses

- We calculate planning and development costs by itemizing each task involved, such as research, scenario hunting, and location scouting. For planning and development work that we commission, we pay the production company the agreed planning and development costs as consideration for the services, regardless of whether a production decision, including a greenlight, is ultimately made.
- Because revisions are inherent in the production of a production, additional costs may arise. In such cases, we bear the excess amount based on the justification presented by the production company and following discussions between the parties, as appropriate to the circumstances.

◆ Payment status of remuneration other than production commission fees

- It is not standard practice to pay a prime production company any remuneration other than the production commission fee, such as production royalties or success-based bonuses. However, depending on the background to the project and the outcome of individual negotiations with the prime production company, the parties may agree to provide additional remuneration.
- Under the production committee model, additional remuneration may in some cases be paid in connection with the allocation of revenues from secondary or tertiary exploitation; however, where the business is limited to streaming, the streaming of secondary-use revenues is structurally difficult under the prevailing business model. We are, however, engaged in ongoing discussions regarding the return of value to creators. For example, where a production proves successful and a subsequent season or sequel is commissioned, we may respond by increasing the production commission

fee, or other outsourced fees, payable to creators for that subsequent season or sequel.

<Prime production company>

◆ Responses indicating that production commission fee levels are high

- The contract structure of foreign video streaming companies completely separates production commission fees and production costs (profits), and profits are guaranteed. Production commission fees are reimbursed at actual cost. Although the ratio of profit to production commission costs is less than 10% in the production committee model, the scale of production commission costs is orders of magnitude larger, so the amount of profit is far greater than that of a regular film. In the production of works by foreign video streaming companies, profits are guaranteed and the scale is substantial, making this aspect highly attractive.
- The production commission fees for films are low, and the only companies that are willing to pay satisfactory production commission fees are foreign video streaming companies. Foreign video streaming companies have large budgets and will pay production commission fees as needed. In addition to the production commission fee, foreign video streaming companies will also pay the back-office costs of the prime production company as general administrative expenses. The profits of the prime production company are included in these general administrative expenses, but the last time we signed a contract with a foreign video streaming company, we were able to claim 20 million yen as profit from the 60 million yen in general administrative expenses. Foreign video streaming companies pay higher remuneration, so we would like to take of our work from them, but if we only worked with foreign video streaming companies, we would not be able to maintain our existing relationships in this small industry.
- Video streaming companies scrutinize production commission fees more closely, but they do allow production commission fees to be accumulated in order to create a quality work. Today's Japanese production committees determine production commission fees based solely on available budgets, making streaming services offer better terms than production committees. When working with a production committee, estimates are made based on intuition at the planning stage, but this is not the case when transacting with a video streaming company. Once details such as the cast and shooting period have been finalized, the estimate is then negotiated.
- When a video streaming company becomes the client, in order to ensure the profits of the prime production company, the production commission fees are transferred to separate accounts for the prime production company's profits, which is extremely beneficial for the prime production company.

◆ Responses indicating that production commission fee levels are not necessarily high

- In the case of works produced by foreign video streaming companies, there is no such thing as a success fee.

- Large prime production companies are unlikely to carry out transactions with foreign video streaming companies. This is because, while profits may seem substantial for small prime production companies, for large prime production companies, profits of tens of millions of yen seem small.
- When carrying out transactions with foreign video streaming companies, sales and administrative expenses, or gross profit, are basically 5%, and at most 7 to 8%. Foreign video streaming companies seem to think that there is no problem because the original production commission fees are high, at 1 billion yen per season of one series, and the gross profit margin is multiplied by that production commission fees. In terms of production commission fees, it seems that there is no limit to the increase if it is to improve the work. This is good news for people on the front lines who want to improve quality, but even though they no longer have to bear additional costs, it does not change the company's profits, so it means that the binding period becomes longer.

◆ Payment of planning and development expenses, additional production commission fees, and negotiations to increase freelance remuneration

- When working with foreign video streaming companies, planning and development involves creating a plot, which is the first step in a screenplay, coming up with cast members, and considering the budget framework, and planning and development expenses such as labor costs are provided from the development stage until production begins. After that, the works that are judged to be good among those that have been planned and developed are turned into actual works (produced).
- In the case of foreign video streaming companies, if additional costs arise from the initial estimate, payments are made by negotiating in advance that an increase is expected. Profits from the prime production company are paid as selling and general administrative expenses, separate from the production commission fee.
- Foreign video streaming companies have large budgets for overall production commission fees, so the freelance remuneration for streamed works are also slightly higher. When submitting expense reports, any significant increases will be pointed out, but the costs related to the cast are far greater, and even if the costs related to freelancers increase slightly, no criticism is made.

B Approach under the SME Transactions Act

In interviews, both streaming platforms and prime production companies provided multiple responses indicating that "in addition to reimbursement of actual production costs, general administrative expenses of the prime production company are paid separately," "planning and development expenses are paid," and "additional costs are reimbursed following consultation where reasonable justification is presented;" these responses suggest that prime production companies are often positioned to secure an operating profit.

By contrast, payment structures such as production royalties, success-based remuneration,

and revenue-sharing arrangements⁷⁹, which are observed under the production committee model, are generally not adopted. Where copyright vests in the prime production company, a "buyout structure" under which the streaming platform bears the full production commission fee in exchange for assignment of copyright is considered to be common⁸⁰. In this regard, some prime production companies responded that if they a large prime production company, they would not be able to make much profit from transactions with video streaming companies.

Although such circumstances do not in themselves immediately constitute a violation of the SME Transactions Act, once the Act has entered into force, where a transaction falls within its scope and a prime production company requests price negotiations, including with respect to a revenue-sharing structure, any unilateral determination of payment amount by a streaming platform (such as unilateral refusal to engage in discussions of the payment amount), may give rise to an issue under the SME Transactions Act, specifically unilateral price determination without responding to a request for consultation (Article 5, Paragraph 2, Item 4 of the SME Transactions Act).

(3) Information disclosure

In interviews, both production committees and prime production companies stated that, particularly in dealings with foreign video streaming companies, information such as view counts is not disclosed.

Because issues relating to disclosure are relevant not only to production commission transactions with prime production companies but also to licensing transactions for streaming rights with production committees, which frequently hold copyright in the production, the following discussion reflects interview responses from production committees as well.

A Actual conditions

(A) Significance of information such as view counts

In interviews, production committees and prime production companies stated that information such as post-release view counts "can be utilized for marketing," and that "without such information, it cannot be used for the production, streaming, or theatrical release of subsequent productions; at a minimum, we would welcome demographic data such as total viewers and viewers by age group," while also noting that "because the data itself has value to streaming platforms, they likely do not disclose it in order to avoid giving the counterparty room to negotiate," suggesting that such information may be useful in marketing subsequent productions and in negotiations with streaming platforms.

(B) Disclosure of information such as view counts

In the questionnaire survey of prime production companies, as shown in Figure3-31, regarding disclosure of view counts over the past five years, approximately 10% responded that such information is "often disclosed," approximately 10% responded that it is "often disclosed if we request access from the streaming platform," and approximately 50%

⁷⁹A performance-based remuneration structure under which payment is linked to factors such as sales of the production or number of views.

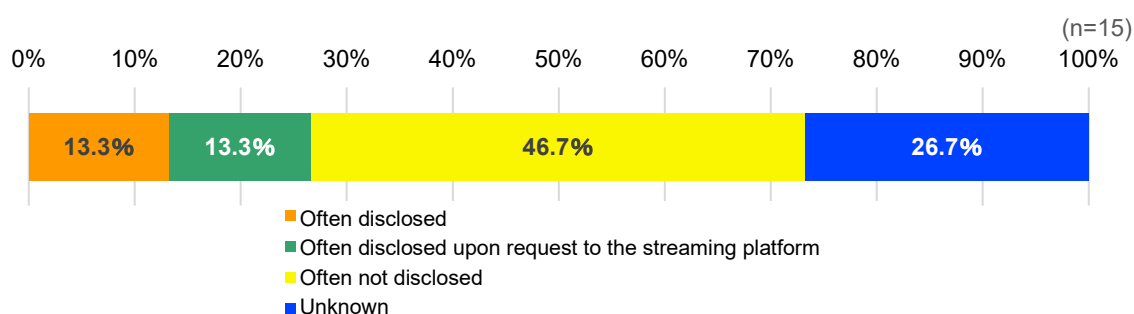
⁸⁰That said, there are indications of efforts to enhance the motivation of production companies, including consideration of higher production commission fees for sequels and the introduction of future incentive-based remuneration.

responded that it is "often not disclosed."

In interviews, streaming platforms responded that "with respect to productions commissioned to production companies, we always conduct post-release review meetings and share information such as how much the production was viewed as necessary," and that "in revenue-sharing arrangements, we report information to our business partners," indicating that a certain degree of disclosure is undertaken. By contrast, regarding detailed information such as user attributes and viewing time bands, respondents stated that "considering the system and personnel costs of providing information, it is burdensome and unrealistic to provide the full range of data sought by business partners," and that "information concerning view counts and similar metrics constitutes important trade secrets," indicating that detailed disclosure is difficult due to burden and confidentiality concerns.

Production committees and prime production companies responded that "foreign video streaming companies do not disclose information such as view counts," while also noting that "some Japanese video streaming companies do provide such information."

Figure3-31 Whether view count information has been disclosed over the past five years



Source: Created based on survey results

[Interview excerpt (22)]

<Video streaming companies>
◆ Disclosure of information such as view counts

- Because the granularity of data we collect, including view counts, is not particularly fine, the scope of information we can disclose is inherently limited; however, we consider that we provide production companies with the information necessary for their purposes. In particular, for productions commissioned to production companies, we invariably conduct post-release review meetings and, where appropriate, share information such as the extent of viewership.
- We do not disclose to licensors data such as view counts, gender breakdown, or age demographics for distributed productions. Where license fees are calculated based on total playback hours etc. for a production, we may report the figures necessary for determining those license fees.
- Where the transaction is structured as revenue sharing, sales are apportioned based on the aggregate number of unique users across all episodes, and that unique user figure is reported to the counterparty. No other data is disclosed. We would respond if requested, but no such request has been made.

◆ Difficulty of information disclosure

- Although it may be technically possible to collect data such as which episodes were most viewed, whether viewing was concentrated at night, or whether viewing peaked during summer vacation periods, we do not, in any event, collect data internally at a high level of granularity. Taking into account the system and personnel costs required to provide the level of detail sought by business partners, doing so would impose a substantial burden and is not considered practicable. At most, we can share with business partners the data and internal evaluations that already exist, on a case-by-case basis through the responsible staff.
- Information concerning user attributes and preferences, including view counts per production, gender distribution, and age demographics, constitutes important trade secrets, and, from the standpoint of protecting user trust, is in principle not disclosed. Where necessary for calculating license fees, relevant data may be disclosed to the licensor within that limited scope, and even then only subject to confidentiality obligations.
- Providing detailed viewing data to all business partners would require, for example, the construction of systems allowing counterparties to access our internal dashboards, which would entail significant cost and is therefore difficult to implement.

<Production committee/prime production company>

◆ Requests for information disclosure

- From a marketing standpoint, we would like access to streaming metrics (including view counts, total viewing time, and number of unique users).
- It is perceived as highly unfair that streaming platforms do not disclose data they are expected to possess, such as view counts and viewer demographics. We have attempted to negotiate disclosure, but foreign video streaming companies have responded that "it cannot be done," and we are unable even to get to the negotiation table. We do not consider the requested disclosure to be technically infeasible.
- The absence of access to marketing data presents a significant challenge. Without such data, it cannot be effectively utilized in planning production, distribution, or theatrical release of subsequent productions; at a minimum, demographic data such as total viewers and viewer numbers by age group would be desirable. We do not seek disclosure beyond that level, given the existence of trade secrets.
- We believe streaming platforms should disclose information such as view counts. However, because many streaming platforms do not provide such disclosure, negotiations currently proceed on the assumption that the information will not be shared.
- No view count or similar data has been disclosed by foreign video streaming companies. Frankly, we would very much like access to data such as view counts. Multiple departments within our company have sought disclosure, but those requests have been consistently declined.
- In streaming transactions, the single most important metric is view count. Access to view count data would enable assessment of promotional effectiveness and audience engagement with the core content and would serve as critical input for future promotional strategies; however, streaming platforms have not been willing to provide such data.

◆ Disclosure of information

- Foreign video streaming companies do not disclose view counts etc. This is attributed to the commercially sensitive nature of such data for streaming platforms.

Disclosure of streaming metrics would not only provide prime production companies with additional bargaining leverage but could also affect competition among platforms, and streaming platforms are therefore reluctant to disclose such information.

- Information concerning view counts and target audience segments cannot be obtained. Some Japanese video streaming companies provide monthly view count data; however, many provide no data at all, and foreign video streaming companies in particular provide none. Streaming platforms are understood to regard the data itself as valuable and, because its disclosure would increase the counterparty's bargaining leverage, are therefore presumed not to release it.
- Foreign video streaming companies generally do not respond to requests for disclosure. Some Japanese streaming platforms do provide information.
- We believe that the number of views of the content we produce can be used as a bargaining chip with platform providers, but this information is not disclosed. I think it should be okay to tell the prime production company, but it's an internal company rule.

◆ **Responses indicating that disclosure could adversely affect negotiations**

- It was also suggested that, even if streaming platforms were to disclose data, providing information beyond what is strictly necessary could prompt excessive price reduction demands and undermine negotiations etc. Because streaming platforms are structured so that productions appearing in rankings tend to experience accelerated growth in view counts, as increased visibility attracts additional viewers, disclosure of such data would not necessarily contribute to a healthy market environment.

B Competition policy perspective

Interviews suggest that streaming platforms do not disclose view counts etc. to business partners (production committees) and prime production companies, particularly where the contract is structured as a flat-fee arrangement⁸¹, or that any information disclosed may fall short of the level of detail or accuracy sought by the content provider.

Such information may form the basis for negotiations over production commission fees or license consideration when renewing contracts or entering into agreements for series productions or similar productions.

With respect to the streaming business, the Japan Fair Trade Commission also conducted a Fact-finding Survey on Connected TV and Video Streaming Services, etc. (published March 2024); the sector appears to be competitive to a certain degree, and, in light of the interview results concerning production commission fee levels described in (2) above, it cannot at present be concluded that streaming platforms frequently impose markedly low consideration.

At the same time, streaming platforms may occupy a superior bargaining position vis-à-vis their counterparties, the content providers; in assessing whether a platform has unilaterally set an unduly low level of consideration for content, thereby constituting an abuse of superior bargaining position under the Anti-Monopoly Act, a comprehensive evaluation is required, taking into account whether sufficient negotiations occurred between the parties and circumstances such as supply and demand conditions for video content. From the standpoint of preventing violations of the Anti-Monopoly Act, it is desirable that consideration for content be determined through sufficient negotiations between streaming platforms and content providers. Accordingly, not only in revenue-sharing arrangements but also in flat-fee contracts, streaming platforms should provide, to the extent necessary for appropriate negotiations regarding consideration at the time of contract renewal or when entering into agreements for series or similar productions, information concerning user view counts etc. for the relevant content⁸².

⁸¹A fixed license fee, determined based on factors such as the license period, constitutes the consideration for the transaction.

⁸²See Japan Fair Trade Commission, "Report on the Fact-finding Survey on Connected TV and Video Streaming Services, etc." (March 2024), p.120.

Chapter 2 Transactions between prime production companies and subcontracted production companies

1 Ordering stage

(1) Status of written clarification of transaction terms

A Actual conditions

(A) Status of written clarification of transaction terms

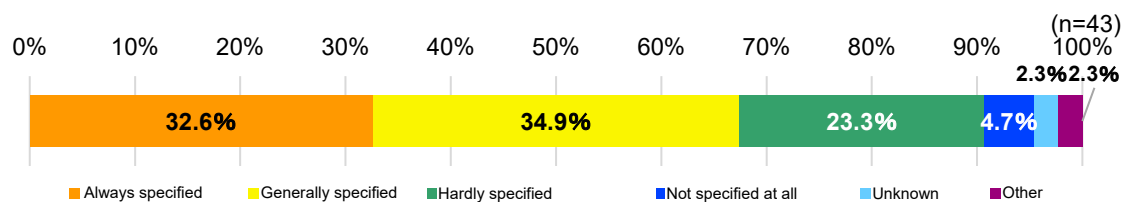
In the questionnaire survey of subcontracted production companies⁸³, as shown in Figure3-32, regarding the status of specification of transaction terms in writing⁸⁴ in transactions with prime production companies over the past five years, approximately 90% in total responded that such terms are "always specified" or "generally specified."

In addition, upon confirming the matters specified as transaction terms, as shown in Figure3-32, relatively high percentages were reported for items required to be specified under Article 4 of the SME Transactions Act, including "scope of work" (93.1%), "production commission fees (including the amount)" (82.8%), and "delivery timing and delivery conditions" (75.9%)."

In interviews, prime production companies responded that they "always issue a purchase order when a subcontracted production company begins production."

On the other hand, subcontracted production companies responded that they rarely receive contracts or purchase orders from prime production companies, and that "purchase orders and contracts are exchanged only when working with some major companies, and only about 20% of cases," and "in films, costumes are often prepared each time depending on the director's ideas at the time, so it is difficult to decide the costume budget at the beginning and it is difficult to obtain written documents."

Figure3-32 Disclosure of transaction terms in writing or equivalent form in contracts with prime production companies over the past five years



*Subcontracted production companies were asked to report on trends over the past five fiscal years.

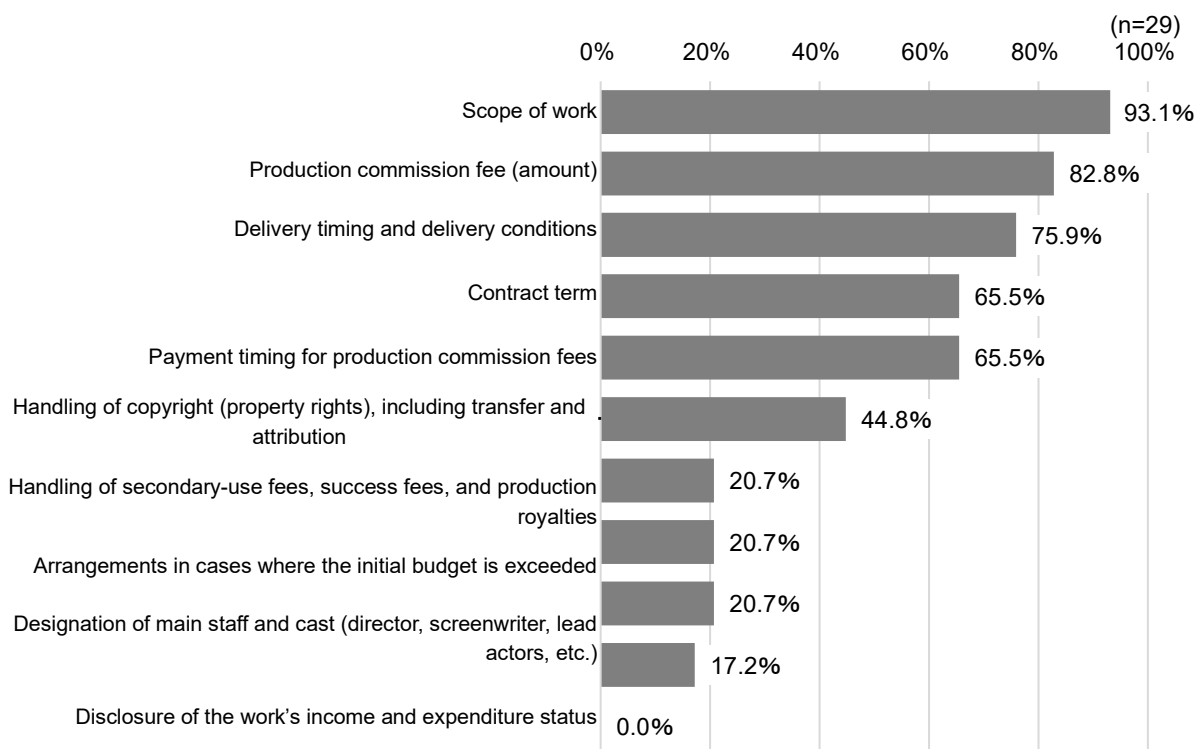
Source: Created based on survey results⁸⁵

⁸³This refers to the tabulation of responses from production companies that identified their primary position in the transaction chain as that of a subcontracted production company. The same applies in Section 2 below.

⁸⁴"Written materials" refers to documents such as contracts and purchase orders, as well as electronic communications that identify the recipient (including email, SNS, and chat tools), or delivery of electronic files via media such as USB drives or CD-Rs.

⁸⁵Because percentages are rounded to the nearest second decimal place, totals may not equal 100%.

Figure3-33 Items specified as transaction terms (multiple responses permitted)⁸⁶



Source: Created based on survey results

[Interview excerpt (23)]

<Prime production company>

- We make sure that a purchase order is always issued to a subcontracted production company when they begin production. We also issue purchase orders to companies that are not subject to the SME Transactions Act.

<Subcontracted production company>

◆ Whether transaction terms are specified in writing

- Purchase orders and contracts are exchanged only when working with some major companies, and only about 20% of cases.
- Contracts are not executed. Although distribution companies may require signing confidentiality agreements or data storage contracts, written agreements regarding film production are rarely exchanged.

◆ Other

- Contracts and purchase orders are almost never issued by the prime production company. To date, only one contract has been signed, and it is with a foreign video

⁸⁶No specific entries were provided in the free-response field under "Other."

streaming company. The reason why no contracts are signed is that in films, costumes are often prepared each time depending on the director's ideas at the time, so it is difficult to decide the costume budget at the beginning and it is difficult to obtain written documents. Even if a provisional contract is signed at the beginning, the director's wishes may require multiple course corrections, and it would be a hassle to have to issue written documents each time.

- As a sales representative who has transferred from another company, I would still like to have a contract. Since it's a matter of whether something was said or not, we try to put it in writing as much as possible, such as including it in estimates or writing it down in emails after meetings just to make sure it's clear, but sometimes it gets reneged on. I think having a contract makes it easier to negotiate unexpected work. However, it is difficult to ask for a contract because if we do, the prime production company may find it troublesome and avoid doing business with us in the future.

(B) Timing of written clarification of transaction terms

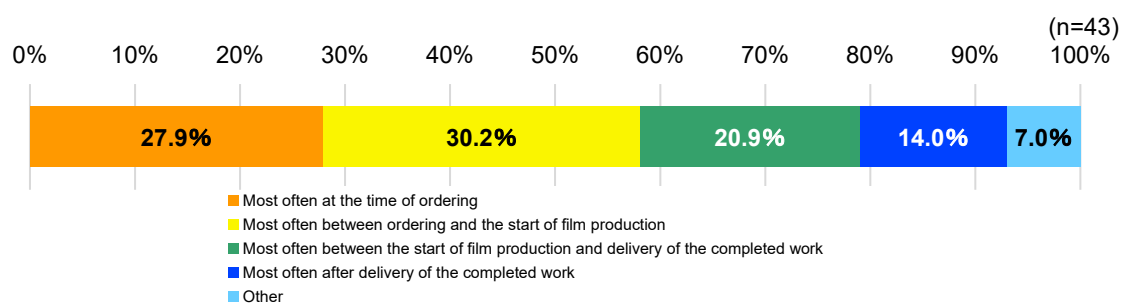
In the questionnaire survey of subcontracted production companies, as shown in Figure3-34, regarding the timing at which prime production companies actually specify transaction terms, etc. in writing, just under 30% responded that such terms are most often specified "at the time the order is placed," while approximately 30% responded that they are most often specified "after the order is placed but before commencement of film production," approximately 20% responded that "after commencement of film production but before delivery of the film," and approximately 14% responded "after delivery of the film."

Compared with transactions between production committees and prime production companies (Figure), a higher proportion of respondents indicated that transaction terms are specified at the time of ordering in transactions between prime production companies and subcontracted production companies.

In interviews, prime production companies responded that they "sign contracts before the first payment is made at the latest," and "in the case of an ongoing series, production begins one and a half to two years in advance, so purchase orders are already issued two years in advance."

However, subcontracted production companies responded that, "In some cases, no written contract has been prepared at the time work commences. Even where the arrangement begins as a verbal agreement, once the contract is concluded and work has started, it is difficult to withdraw solely because certain transaction terms are unsatisfactory."

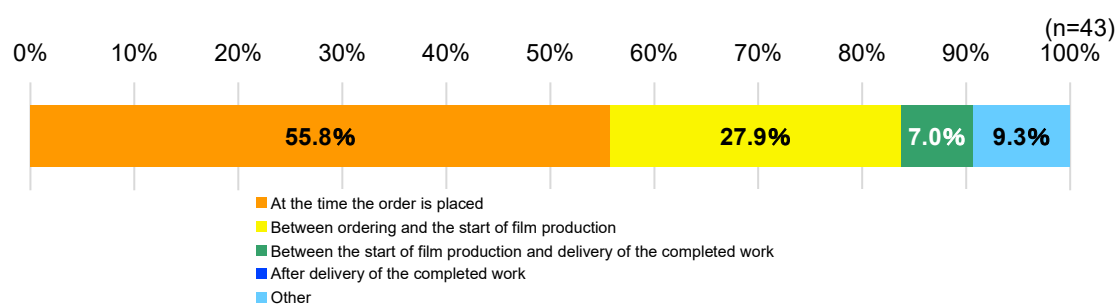
Figure3-34 Timing of specification of transaction terms in writing, etc. over the past three years⁸⁷



*Subcontracted production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

Figure3-35 Preferred timing for disclosure of transaction terms



Source: Created based on survey results

[Interview excerpt (24)]

<Prime production company>

- Contracts are signed before the first payment is made at the latest.
- In the case of an ongoing series, production begins one and a half to two years in advance, so purchase orders are already issued two years in advance.

<Subcontracted production company>

◆Timing of written clarification of transaction terms

- In some cases, no written contract has been prepared at the time work commences. Even where the arrangement begins as a verbal agreement, once the contract is concluded and work has started, it is difficult to withdraw solely because certain transaction terms are unsatisfactory.
- Even when exchanging purchase orders or contracts, delivery deadlines loom

⁸⁷The following responses were submitted in the free-text field under "Other."

- There were no written documents from what I recall.
- No written documents are provided.

while negotiations continue via messenger or other means to finalize the terms of the transaction. When negotiations are taking time, work must proceed even without purchase orders or contracts to meet the delivery deadline. In such cases, work sometimes begins without a purchase order or contract.

- In one project, the payment had been completed but the contract had not been signed. In Japan, it is common for contracts to be signed at the very end of a project, so we decided we never wanted to do business with that company again.

◆ **Preferred timing for written specification of transaction terms**

- Although we cannot decide the final remuneration at the outset, by signing a contract in advance, we can clarify other terms such as the period, credit details, confidentiality obligations, and payment deadlines, so we would like to sign a written contract or other document before starting work.
- Having a contract will help prevent problems, so I hope it will become the norm to sign a contract before starting work, just like in other industries.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

According to the questionnaire survey of subcontracted production companies, as indicated in Figure3-32 and Figure3-33, regarding the disclosure in writing of transaction terms in dealings with prime production companies over the past five years, important terms are disclosed in writing in most cases; however, as shown in Figure3-34, in a substantial number of cases disclosure occurs either immediately before the commencement of the commissioned work or after work has already begun.

Under the SME Transactions Act, where a commissioning business operator entrusts a small or medium-sized entrusted business operator, it must immediately specify the required matters (Article 4, paragraph 1 of the SME Transactions Act). Some commissioning transactions for film creation between prime production companies and subcontracted production companies are considered to constitute commissions for the creation of information-based deliverables under Article 2(3) of the SME Transactions Act⁸⁸; where such transactions fall within the scope of the Act, the prime production company must specify the transaction terms without delay when commissioning the creation of information-based deliverables.

As with transactions between a production committee and a prime production company (see Section 1(1)(i) above), even where detailed terms cannot be fixed at the ordering stage and certain matters remain unresolved, the SME Transactions Act permits subsequent supplementary disclosure (proviso to Article 4(1)); accordingly, the prime production company is required to specify finalized terms immediately in writing and, after sufficient consultation regarding unresolved matters, to determine them as early as practicable and promptly provide

⁸⁸ Transactions between prime production companies and subcontracted production companies include commissioning the creation of information-based deliverables that make up a film, such as music and visual effects, as well as other transactions such as renting costumes and equipment.

supplementary written disclosure.

Even where the SME Transactions Act does not apply, there were responses stating that "failing to specify transaction terms in writing before the subcontracted production company commences the commissioned work results in the subcontracted production company performing work under unclear contractual terms, and if unacceptable transaction conditions are presented after commencement, the subcontracted production company may be unable to withdraw," suggesting that such practices may give rise to abuse of superior bargaining position by the prime production company. Accordingly, even in such cases, prime production companies should promptly specify finalized terms in writing and, following adequate consultation, determine unresolved matters as early as practicable and disclose them in writing.

(2) Transaction consideration (production commission fees, etc.)

A Actual conditions

(A) Methods for setting production commission fees

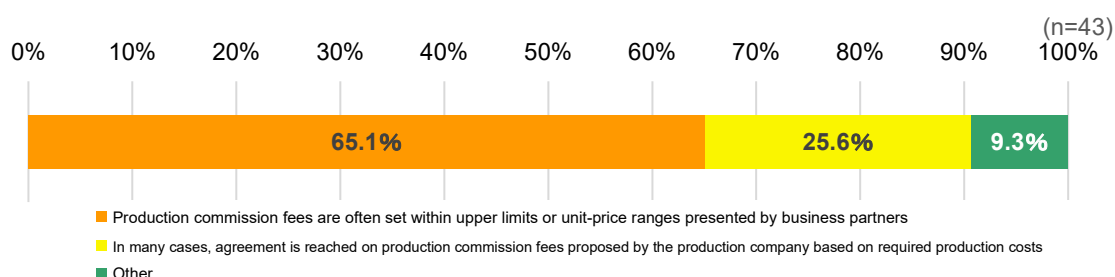
In the questionnaire survey of subcontracted production companies, as shown in Figure3-36, regarding methods for determining production commission fees over the past five years, just under 70% responded that they "often determine production commission fees within the upper limits or unit prices presented by the business partner," while just under 30% responded that they "often reach agreement on production commission fees proposed after taking into account necessary production costs (manufacturing costs)."

With respect to negotiations over the amount of production commission fees, as shown in Figure3-37, the majority responded that they "were often able to negotiate."

In interviews, subcontracted production companies responded that the budget for production commission fees is presented by the prime production company, and that they negotiate, but there is a risk of losing the contract if the price is not low. However, some also responded that, "If the price exceeds the amount presented by the other party, the amount is not decided in advance and is instead negotiated after production."

Prime production companies responded that they would not unnecessarily reduce the fee as long as it was within budget, even without negotiations from subcontracted production companies or freelancers.

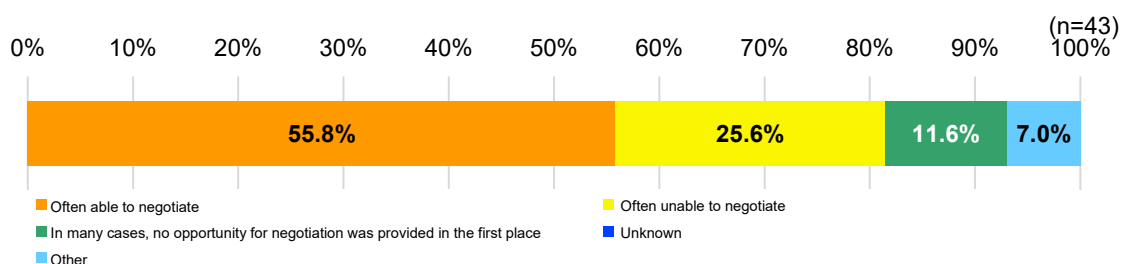
Figure3-36 Methods for determining production commission fees over the past five years⁸⁹



*Subcontracted production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

Figure3-37 Whether the amount of production commission fees has been negotiable over the past five years⁹⁰



*Subcontracted production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (25)]

<Prime production company>

- For one film, there were concerns that the production commission fees would be insufficient, so at the offer stage, we communicated the art and costume costs including labor costs and they accepted the offer. The reason why line producers present art costs and other expenses including labor costs is because they do not understand the expenses for art and costumes or the breakdown of labor costs, and they leave it up to their clients, who often have art producers, to manage the art department's budget.

⁸⁹The following responses were submitted in the free-text field under "Other."

- Discuss and adjust the amount presented by the business partner and production costs.
- In the estimate
- An estimate is initially provided, but the price is reduced after the shoot, or the payment deadline is changed (for example, the 60-day rule is not followed).
- Often it is somewhere between the two above.

⁹⁰The following responses were submitted in the free-text field under "Other."

- For independent films, the director decided on the price and negotiated with us.
- Whether or not to accept the order at the quoted price.
- If whether or not to accept reductions can be considered negotiation, then yes.

- The company informed producers and line producers that they would not unnecessarily reduce the fee as long as it was within budget, even without negotiations from subcontracted production companies or freelancers.

<Subcontracted production company>

◆Examples where there is room for negotiation

- We have almost never had any problems negotiating prices with the prime production company. The estimated amount has increased in line with rising prices, and has been accepted by the prime production company. On the other hand, unit prices have hardly increased at all, so I think it is tough on some fronts.
- At the time of the initial request, an estimate of the cost and schedule will be presented. We prepare an estimate that takes into account the amount presented and send it to the other party. The power balance is such that our company is lower than the prime production company, and the reality is that we submit estimates that fall within the stated amount to a certain extent.
- Since it is impossible to accurately estimate the workload before seeing the footage, estimates have to be rough estimates. If the amount exceeds the amount offered by the other party, the amount will not be decided in advance and will be negotiated after production. In reality, the workload is never reduced after shooting, nor does the final cost ever end up lower than the quoted estimate. If the amount of work is more than expected, we negotiate.
- We state the agreed-upon remuneration based on our initial estimate, and contractually, we will negotiate each time regarding any additional work or similar matters that arise. Even if, due to business practices, it is not possible to decide the final amount of remuneration at the outset, the minimum remuneration is clearly stated in the contract.
- Typically, a fixed budget is presented at the outset, after which the scope of work is reviewed and costs are calculated. Where costs are projected to exceed the budget, the company presents its cost estimates and enters into negotiations.

◆Examples where sufficient negotiations are difficult

- When negotiating prices with prime production companies, they often used the standard line that "we don't have the budget," but since the Japan Motion Picture Production Standards Association Guidelines were established, this tone has become even stronger.
- When a TV drama is adapted into a film, the order is often placed with an art company that is a subsidiary of the TV station, and the prime production company is generally fixed. Perhaps because of this, the rental fees and remuneration conditions are not very good. When we try to negotiate and raise the price, they sometimes hint that they can place the order with a competitor instead.
- It is common for orders to be accepted even though it is known that the order will result in a loss. Even if a particular project itself results in a loss, some transactions prove beneficial in the long run. Therefore, it is an industry custom to accept orders

based on loyalty and goodwill, not only for favorable deals but also for challenging ones.

- We try to negotiate the production commission fee, but if it is not cheap there is a risk of losing the contract. For example, in addition to losing business to other cheaper competitors in Japan, we are also losing business to places like South Korea.

(B) Production commission fee level

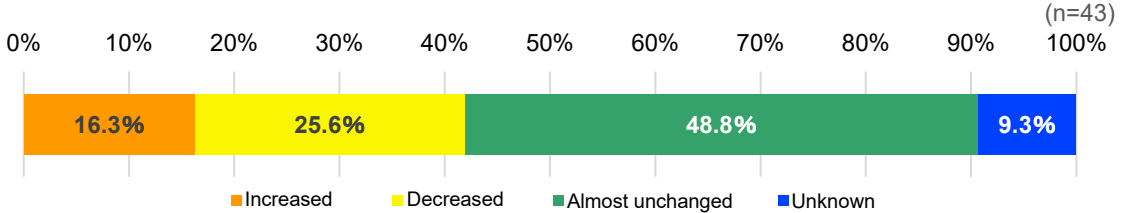
In the survey of prime production companies, as shown in Figure3-38, just under 20% reported that production commission fee levels have increased over the past 10 years, while just under 30% reported that they had decreased, and 50% reported that they were about the same.

With respect to satisfaction with remuneration levels, as shown in Figure3-38, approximately 20% responded that they were "satisfied," while just under 70% responded that they were "not satisfied." As shown in Figure3-38, the reasons given for being "not satisfied" were that just under 80% responded that "the base level of production commission fees is low to begin with," just over 60% responded that "inflationary increases have not been passed on," and approximately 50% responded that "production costs (manufacturing costs) are rising because the expected quality is higher than before."

In terms of operating profit and loss from production commission fees alone, as shown in Figure3-38, 75% of subcontracted production companies reported being "profitable," while 25% reported being "unprofitable."

In interviews, primary production companies responded that it is no longer possible to lower the remuneration or compensation paid to freelancers or subcontracted production companies. On the other hand, subcontracted production companies responded that production commission fees have not increased over the past 10 to 20 years and have in fact decreased, and that the trend of rising prices and wage increases has not been particularly reflected in the film industry. Additionally, some respondents stated that recent advances in AI and other technologies have made it possible to shoot and perform work at low cost, which has led to a decrease in the amount of production commission fees to begin with.

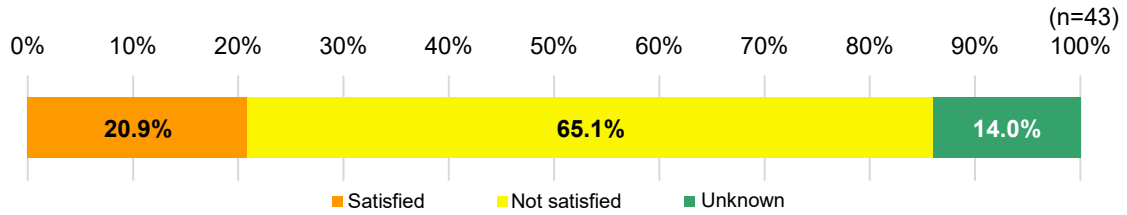
Figure3-38 Changes in production commission fee levels over the past 10 years



*Subcontracted production companies were asked to respond regarding trends over the most recent 10 fiscal years

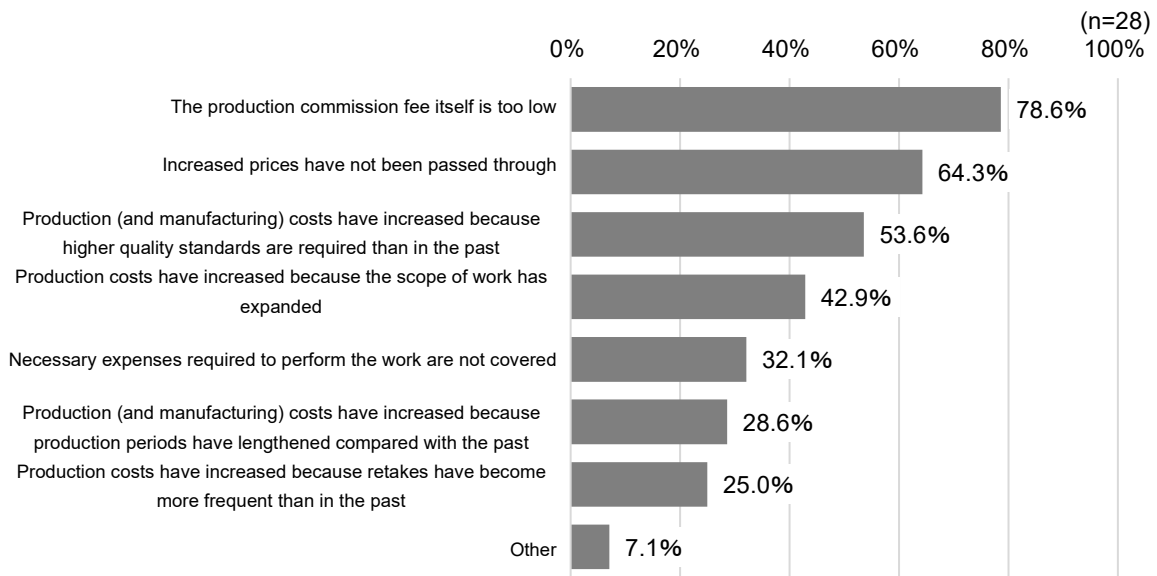
Source: Created based on survey results

Figure3-39 Satisfaction with the level of production commission fees



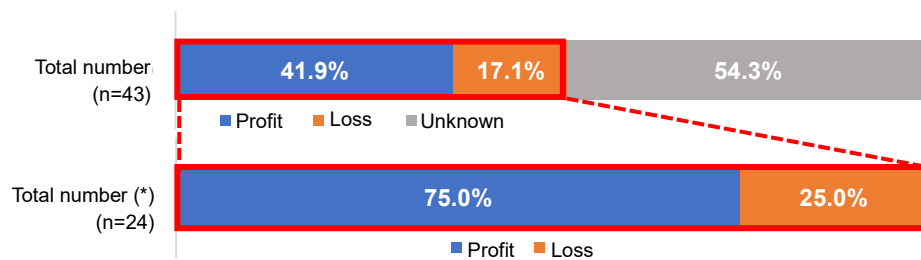
Source: Created based on survey results

Figure3-40 Reasons for dissatisfaction with the level of production commission fees (multiple responses)⁹¹



Source: Created based on survey results

Figure3-41 Operating profit or loss over the past year based solely on production commission fees



*Excluding responses that selected "Unknown" with respect to operating profit or loss attributable solely to production commission fees.

Source: Created based on survey results

⁹¹The following responses were submitted in the free-text field under "Other."
 - I think that an average gross profit of 10% (including internal labor costs) in the manufacturing industry is far too low.

[Interview excerpt (26)]

<Prime production company>

- Regarding transactions with subcontracted production companies, it seems that due to labor shortages these days, freelancers are being shared between subcontracting companies; for instance, when you request Company A, someone from Company B shows up instead. No matter which company you go to, they all have similar pricing.
- In the past, in order to protect the company's profits, it was common for companies to keep the remuneration paid to freelancers and subcontracted production companies low, but these days, due to external pressure from the government, it is no longer possible to lower the fees paid to freelancers and subcontracted production companies.

<Subcontracted production company>

◆ The level of production commission fees

- It may be that the shooting period has been extended (due to the Japan Motion Picture Production Standards Association Guidelines) and that the expenditures of the production company have increased, but in the contract between our company and the prime production company, we do not feel that remuneration has increased as a result of the extended shooting period or other factors.
- Production commission fees haven't increased in the last 10 to 20 years. In the film industry, time has stood still; or rather, it's been going backward. Budgets for mid-sized films are not increasing, let alone those for large-scale commercial films. This is probably because there is now a trend that films can be made with a low budget. The budget hasn't changed, but there's more they want to do.
- I feel that the trends of inflation and wage increases are not particularly reflected in the film industry, compared to industries such as advertising.
- The amount has already gone down. I think the reason for the decline is probably because in recent years it has become easier to create videos using AI and other technologies. There are still some parts of this industry that cannot be produced solely by AI, so there is still work for us to do, but many parts have been replaced by AI and will continue to be so in the future. Since we ourselves use AI, we have no choice but to reduce costs.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

(A) Unjust price reduction

In interviews with prime production companies, they responded that they would not unnecessarily reduce the fee as long as it was within budget. In a questionnaire survey of subcontracted production companies, just under 20% said that the level of production commission fees over the past 10 years had "increased," while just under 30% said that they had "decreased," and around 50% said that they had "remained almost unchanged." This suggests that, just like in transactions between production committees and prime production

companies, it cannot be said that the level of production commission fees is on the rise.

Furthermore, in a questionnaire survey of subcontracted production companies, when asked about their satisfaction with the amount of production commission fees, nearly 70% answered that they were "not satisfied," and the reasons given for their dissatisfaction included "the base level of production commission fees is low to begin with" and "inflationary increases have not been passed on," suggesting that there are cases in which increases in production costs due to inflation and other factors cannot be fully reflected in production commission fees.

In addition, 25% of subcontracted production companies responded that they were operating at a loss based on production commission fees alone, suggesting that some subcontracted production companies are not very profitable.

Although this situation does not in itself constitute a violation of the SME Transactions Act or the Anti-Monopoly Act, in transactions subject to the SME Transactions Act, if a prime production company sets remuneration at a level substantially below the ordinarily payable amount, without taking into account rising prices, this may constitute unjust low pricing under Article 5, Paragraph 1, Item 5 of the SME Transactions Act.

Even where the SME Transactions Act does not apply, if a prime production company, by abusing its superior bargaining position, unilaterally sets remuneration at an unreasonably low level without adequate consultation in light of rising prices, and thereby imposes unjust disadvantage on a subcontracted production company contrary to normal commercial practice, this may constitute abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act.

In addition, in transactions between production committees and prime production companies, 29.4% responded that production commission fees have "risen," whereas in transactions between prime production companies and subcontracted production companies, 16.3% responded that they have "risen." Although this represents a difference of approximately 10 percentage points, it appears that increases in production commission fees in upstream transactions between production committees and prime production companies may be cascading to some extent into downstream transactions as well. However, in interviews conducted in both tiers of transactions, multiple prime production companies and subcontracted production companies stated that increases in production commission fees have not kept pace with rising labor costs and other inputs, suggesting that the pass-through of higher production costs into production commission fees remains insufficient.

(B) Unilateral determination of consideration without consultation

In the questionnaire survey of subcontracted production companies, as shown in Figure3-37, the majority responded that they "were often able to negotiate" in determining production commission fees over the past five years. In interviews, some subcontracted production companies responded that they had never had any problems negotiating with the prime production company.

However, in interviews, subcontracted production companies also responded that "we negotiate, but there is a risk of losing the contract if the price is not low," and "we often accept orders even knowing that we will incur a loss," suggesting that even if there is a

forum for negotiation over production commission fees, the discussions may not be sufficient.

Since the enforcement of the SME Transactions Act, where a subcontracted production company requests price consultations concerning production commission fees, a prime production company's refusal to engage in consultation, failure to provide necessary explanations, or other unilateral determination of remuneration may constitute a violation under Article 5, Paragraph 2, Item 4 of the SME Transactions Act, namely unilateral price determination without engaging in consultation.

Even where the SME Transactions Act does not apply, if a prime production company, by abusing its superior bargaining position, unilaterally sets remuneration at an unreasonably low level without adequate consultation in light of rising prices, and thereby imposes unjust disadvantage on a prime production company contrary to normal commercial practice, this may constitute abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act.

As noted in Chapter 2, Section 3, 2 (1), in transactions between production committees and prime production companies, it may be difficult at the outsourcing stage to calculate estimates or finalize production commission fees; similar difficulties may also arise in transactions between prime production companies and subcontracted production companies, where fees may not be determinable at the time of contracting.

On this point, interviews revealed that unlike transactions between the production committee and the prime production company, while no responses indicated the setting of contingency funds or success fees in transactions between the prime production company and subcontracted production companies, some respondents stated that even if, due to business practices, it is not possible to decide the final amount of remuneration at the outset, the minimum remuneration is clearly stated in the contract, and they negotiate additional costs as they arise. From the perspective of ensuring that increases in production costs are fully passed on to production commission fees, it may be possible for prime production companies and subcontracted production companies to clearly state a minimum remuneration in the contract, and then have the parties fully discuss any additional costs that arise and determine remuneration based on the circumstances of each transaction.

2 Performance of transactions

(1) Order cancellation

A Actual conditions

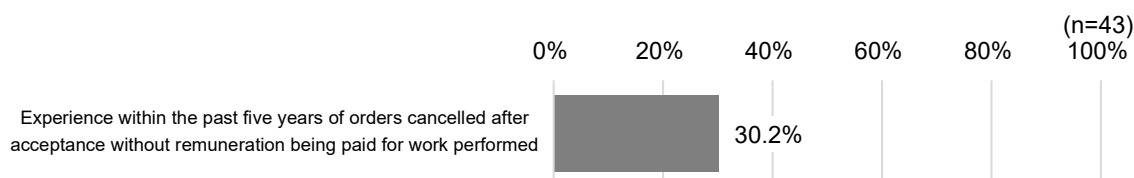
In a survey of subcontracted production companies, as shown in Figure3-42, approximately 30% reported that, within the past five years, an order was cancelled after acceptance and remuneration was not paid for work already performed.

In interviews, prime production companies responded that, "When a project is canceled or postponed, the prime production company needs to compensate remuneration for clients and freelancers to some extent, and sometimes the production committee that decided to cancel or postpone the project does cover these costs, but sometimes they do not."

Subcontracted production companies responded that if an order is canceled, they will lose the schedule and manpower they had reserved, resulting in losses, and that "whether or not a

cancellation fee will be paid depends on the case. If the film production committee pays the cancellation fee, it will be passed on to the subcontracted production company, but if the prime production company hasn't received it, we won't be paid," while others said, "We try to get a few percent as payment for the work done up to that point."

Figure3-42 Experience within the past five years of orders cancelled after acceptance without remuneration being paid for work performed⁹²



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (27)]

<Prime production company>

- When a project is canceled or postponed, the prime production company needs to compensate remuneration for clients and freelancers to some extent, and sometimes the production committee that decided to cancel or postpone the project does cover these costs, but sometimes they do not. (Reposted)

<Subcontracted production company>

- Film production may be canceled at the last minute, leaving schedules empty. In such cases, we charge a few percent of the cost of the work done up to that point.
- Production may be halted in cases such as the COVID-19 pandemic or troubles with actors. Depending on the timing, if a deal is suddenly canceled, it leaves a gap in the schedule and people you had reserved, and you end up not being able to take on work that you would have otherwise been able to take on. The schedule is adjusted on a yearly basis, and it would be difficult to secure a deal of the same scale at short notice, resulting in losses.
- Whether or not cancellation fees will be paid will depend on the case. If the film production committee pays the cancellation fee, it will be passed on to the subcontracted production company, but if the prime production company hasn't received it, we won't be paid. The only time we have had to completely halt production on a large-scale film was due to COVID-19, but we have had some parts of work canceled. In that case, cancellation fees were paid.

⁹²The percentage shown represents the proportion of companies that responded that they had experienced such conduct at least once during the most recent five fiscal years and does not indicate the rate of occurrence relative to the total number of transactions.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

In interviews, subcontracted production companies responded that if an order is canceled, "we make it a rule to receive a few percent as work fees," while in a questionnaire survey of subcontracted production companies, approximately 30% responded that after being commissioned to produce a film by a prime production company in the past five years, the order was canceled but they were not paid for work that had already been done.

In transactions subject to the SME Transactions Act, if a prime production company cancels an order without any reason attributable to the subcontracted production company and fails to bear the costs incurred for work already performed, thereby unjustly harming the interests of the subcontracted production company⁹³, this may constitute an unjust modification of the content of benefit payments under Article 5, Paragraph 2, Item 3 of the SME Transactions Act.

Even where the SME Transactions Act does not apply, if a prime production company abuses its superior bargaining position by cancelling an order without justifiable reason and refusing to bear costs incurred up to the point of cancellation, thereby causing unjust disadvantage to a subcontracted production company contrary to normal commercial practice, this may constitute abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act.

(2) Additional payment of production commission fees

A Actual conditions

(A) Overview

a Incidence of additional costs

In the questionnaire survey of subcontracted production companies, as shown in Figure3-43, approximately 60% responded that "additional costs had arisen" at least once during the past five years, indicating that, as in transactions between production committees and prime production companies, additional costs arise relatively frequently in work performed by subcontracted production companies. Reasons cited for additional costs, similar to upstream transactions, included extensions of the production schedule,

⁹³ As stated in Section 1-2-1(i) above, it should be noted that whether the interests of the subcontracted production company have been unjustly harmed is determined by comprehensively considering such factors as the losses incurred by the subcontracted production company due to bearing costs arising from changes to the content of the performance or retakes, and the amount of costs borne by the prime production company as the commissioning business operator, and assessing whether the subcontracted production company suffered a disadvantage. No issue arises where the prime production company bears the costs or losses incurred by the subcontracted production company as a result of changes or a retake, such that the subcontracted production company's interests are not unjustly harmed.

To prevent disputes, prime production companies and subcontracted production companies may establish in advance, for example through a cancellation policy, whether payment will be made upon cancellation of a service outsourcing contract and, if so, in what amount. However, care must be taken, as depending on how such payment terms are structured, they may give rise to issues under the SME Transactions Act, including unfair price reduction or unjust modification of the content of benefits.

In cases of manufacturing consignment, repair consignment, or the creation of information-based deliverables, even if a cancellation policy has been established in advance, where goods or deliverables have already been completed, the prime production company must accept the goods and pay the consignment fee by the agreed payment date unless there is a reason attributable to the subcontracted production company (see Japan Fair Trade Commission website, "Frequently Asked Questions Q52" (published December 24, 2025)).

additional requests from the production committee or director, poor weather or cast/crew injuries, increasing man-hour labor costs, and rework.

b Negotiations concerning additional costs

As shown in Figure3-45, subcontracted production companies sometimes seek payment of additional production commission fees from prime production companies when additional costs arise, and over the past five years approximately 70% of subcontracted production companies responded that they “were often able to negotiate,” suggesting that negotiations are conducted to a certain extent.

In interviews, subcontracted production companies responded that "since it is impossible to accurately estimate the workload before seeing the footage, estimates have to be rough estimates. If the amount exceeds the amount offered by the other party, the amount will not be decided in advance and will be negotiated after production."

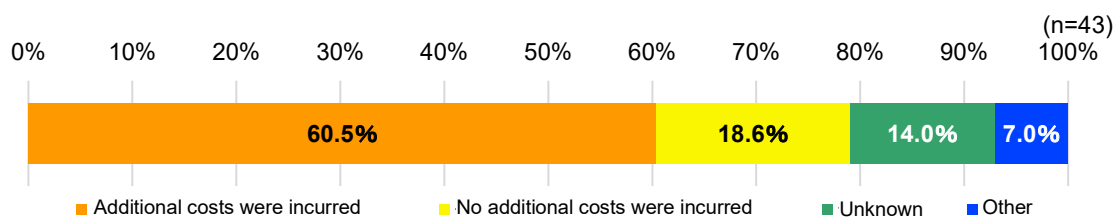
c Allocation of additional costs

As noted above, subcontracted production companies appear to be able to negotiate to some extent with prime production companies regarding payment of additional costs; however, with respect to additional payments made by prime production companies over the past five years, as shown in Figure3-44, just under 50% responded that “the full amount was often paid” or that “only part was paid but the amount was satisfactory,” approximately 20% responded that “only part was paid and the amount was unsatisfactory,” and approximately 15% responded that “no payment was made at all,” indicating that even where negotiations occur, outcomes are not always sufficient from the perspective of subcontracted production companies.

In interviews, prime production companies responded that, "in the past, we kept the compensation paid to subcontracted production companies low, but nowadays, due to external pressure from the government, such as the Fair Trade Commission, we can no longer lower the compensation or remuneration paid to subcontracted production companies or be hesitant to pay them."

Subcontracted production companies responded that, "even if we receive anything, it will only be a paltry amount, about one-fifth to one-tenth of the amount actually required. It cannot be considered a fair compensation for retake work."

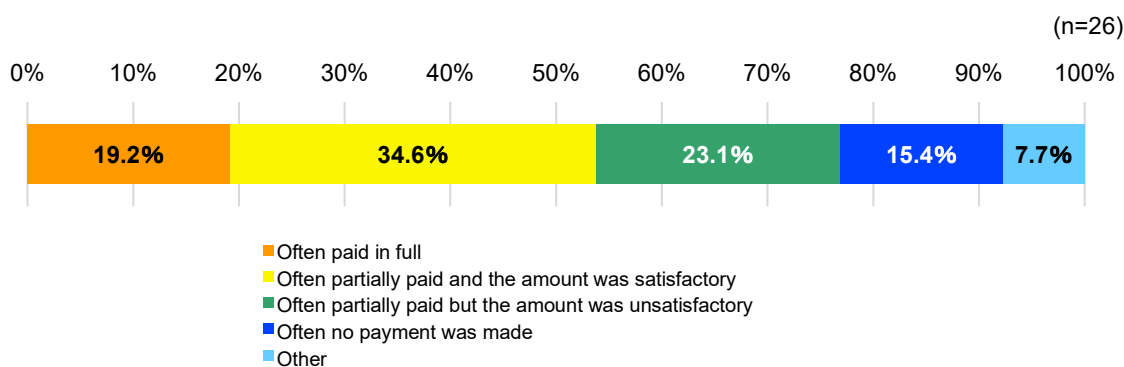
Figure3-43 Whether additional production costs were incurred over the past five years



*Subcontracted production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

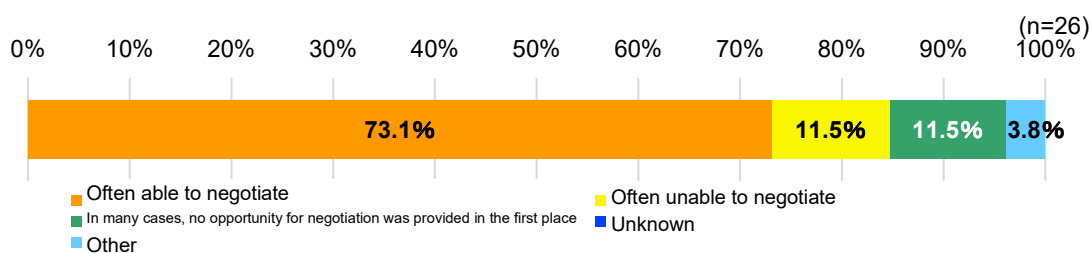
Figure3-44 Whether additional costs were paid during the past five years⁹⁴



*Subcontracted production companies were asked to respond regarding trends over the most recent five fiscal years

Source: Created based on survey results

Figure3-45 Whether negotiation over additional cost payments was possible during the past five years⁹⁵



*Subcontracted production companies were asked to respond regarding trends over the most recent five fiscal years

⁹⁴The following responses were submitted in the free-text field under "Other."

- Most of the payments are made, but the set price is so low that it is far from satisfactory.
- Even when payment is made, the full amount is rarely paid. This, too, is a matter of contractual content, as it concerns payment for deliverables and does not address the production process.

⁹⁵The following responses were submitted in the free-text field under "Other."

- It's not exactly a negotiation; we always bring it up as an agenda item, but we just leave it at that, hoping they'll handle it appropriately. I think it's because we don't actually manufacture screws or nuts, so it's difficult to clearly identify what constitutes necessary production costs.

[Interview excerpt (28)]

<Prime production company>

- In the past, we kept the compensation paid to freelancers subcontracted production companies low to protect our profit, but nowadays, due to external pressure from the government, such as the Fair Trade Commission, we can no longer lower the compensation or remuneration paid to subcontracted production companies or be hesitant to pay them.

<Subcontracted production company>

◆Cases where additional production commission fees are negotiated or partially borne by certain prime production companies

- Since it is impossible to accurately estimate the workload before seeing the footage, estimates have to be rough estimates. If the amount exceeds the amount offered by the other party, the amount will not be decided in advance and will be negotiated after production. In reality, the workload is never reduced after shooting, nor does the final cost ever end up lower than the quoted estimate. If the amount of work is more than expected, we negotiate.

◆Cases where additional production commission fees cannot be adequately negotiated

- Even though the issue isn't due to our technical capabilities, there are times when instructions change and we're asked to make endless revisions. "We don't necessarily receive additional compensation, and even if we receive anything, it will only be a paltry amount, about one-fifth to one-tenth of the amount actually required. It cannot be considered a fair compensation for retake work."

(B) Specific issues, where the subcontracted production company bears no responsibility

As noted above in (a), survey responses from subcontracted production companies identified reasons for additional costs including extensions of the production schedule, additional requests from the production committee or director, poor weather or cast/crew injuries, increasing man-hour labor costs, and rework.

a Extension or postponement of the production period

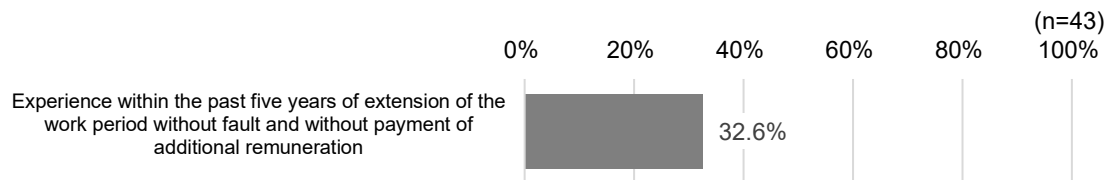
In film production, though it depends on the role and work, subcontracted production companies, like prime production companies, often secure freelance personnel by providing monthly remuneration; where the production period is extended, they may therefore incur additional personnel expenses.

In the questionnaire survey of subcontracted production companies, as shown in Figure3-46, approximately 30% responded that within the past five years they had experienced a case in which "the work period was extended for reasons not attributable to themselves, but no additional remuneration was paid."

In interviews, subcontracted production companies responded that, in the case of works produced by video streaming companies, additional costs have been paid when

shooting periods have been extended due to injuries to cast members, but that payment situations vary in the case of production committee model.

Figure3-46 Experience within the past five years of extension of the work period without fault and without payment of additional remuneration.⁹⁶



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (29)]

<Subcontracted production company>

- It's not uncommon for filming to be extended by two weeks or a month due to an actor's injury. If a foreign video streaming company is the client of the prime production company, they will cover the additional costs for the extended period. However, the situation varies depending on the production committee. However, in the case of the production committee model, the prime production company also makes efforts to stay within the set production commission fee, so it seems that the predetermined shooting period is rarely extended after the fact.

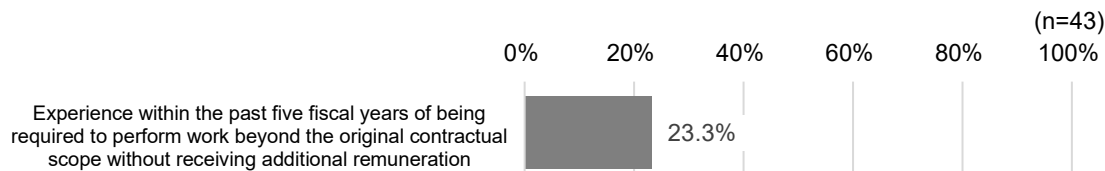
b Performance of work inconsistent with the contract

In the questionnaire survey of subcontracted production companies, as shown in Figure3-47, approximately 20% responded that within the past five years they had been required to perform "work different from the original contractual content, without receiving additional remuneration."

In interviews, subcontracted production companies responded that when they receive instructions for additional work after work has begun, they will negotiate to a certain extent, but will sometimes accept the instructions without paying the additional costs in order to avoid damaging their relationship with their business partner.

⁹⁶The percentage shown represents the proportion of companies that responded that they had experienced such conduct at least once during the most recent five fiscal years and does not indicate the rate of occurrence relative to the total number of transactions.

Figure3-47 Experience within the past five fiscal years of being required to perform work outside the original contractual scope without receiving additional remuneration.⁹⁷



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (30)]

<Subcontracted production company>

◆Cases where work performed outside the contractual scope without payment of additional costs

- If it becomes clear after commencement that additional work will be required, the subcontracted production company first seeks to negotiate on the basis that the work falls outside the scope described in the work specification sheet. However, because the subcontracted production company seeks to maintain the ongoing relationship and secure future assignments, it may ultimately accept the request to avoid damaging the relationship with the business partner. In that case, we cannot expect any additional budget, so we will have to bear the cost ourselves.

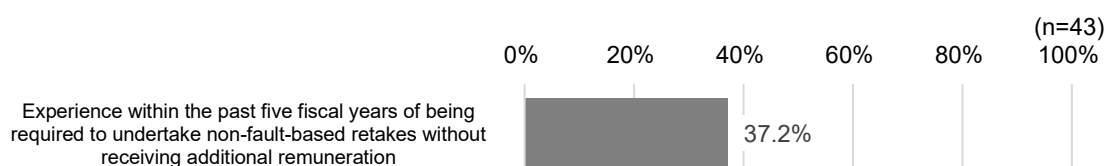
c Retakes

In the questionnaire survey of subcontracted production companies, as shown in Figure3-48, just under 40% responded that within the past five years there had been cases in which "retakes not attributable to themselves were required, but no additional remuneration was paid."

In interviews, subcontracted production companies responded that they "negotiate with the prime production company to receive additional compensation for retakes," indicating that they receive additional payment through negotiations with the prime production company. On the other hand, there were also responses that stated that unclear instructions regarding quality had led to rework and no additional costs were paid.

⁹⁷The percentage shown represents the proportion of companies that responded that they had experienced such conduct at least once during the most recent five fiscal years and does not indicate the rate of occurrence relative to the total number of transactions.

Figure3-48 Have you ever had to redo something (retake) through no fault of your own in the past five years and not received additional compensation⁹⁸



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years
Source: Created based on survey results

[Interview excerpt (31)]

<Prime production company>

- When half-day retakes were required in the morning, the cost ranged from 18,000 to 50,000 yen per retake, and in some cases the art director was paid around 80,000 yen including materials costs.

<Subcontracted production company>

◆Negotiation and payment standards concerning additional remuneration

- Regarding the additional costs incurred due to retakes, we try to negotiate and have the additional costs covered.
- However, additional work may be required later on the delivered deliverables. Where it is clear that the rework is attributable to the commissioning party, requests for additional budget are more likely to be accepted.

◆Cases where additional remuneration was insufficient

- In film production, it is commonly believed that the costs of retakes up to delivery are included in the production commission fee.
- After receiving an order, we may present an estimate and reach an agreement, but the other party may ask us to redo the work because the level of completion is lower than they had requested. The quality that the other party was talking about was not clear at the time of placing the order or when they instructed us to redo the work, and even after the work was redone they were not satisfied, so not only did they not pay the additional costs for the redoing, but they actually reduced the amount.
- Even though the issue isn't due to our technical capabilities, there are times when instructions change and we're asked to make endless revisions. "We don't necessarily receive additional compensation, and even if we receive anything, it will only be a paltry amount, about one-fifth to one-tenth of the amount actually required. It cannot be considered a fair compensation for retake work. (Reposted)

⁹⁸The percentage shown represents the proportion of companies that responded that they had experienced such conduct at least once during the most recent five fiscal years and does not indicate the rate of occurrence relative to the total number of transactions.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

In the questionnaire survey of subcontracted production companies, as with transactions between production committees and prime production companies, approximately 60% reported having experienced situations requiring additional costs. Some respondents indicated that, following discussions between the prime production company and the subcontracted production company, additional production commission fees were paid; however, others reported that even where the additional costs were not attributable to the subcontracted production company, the prime production company nevertheless refused to pay them, or paid them a portion of the amount that was not satisfactory.

Where a transaction falls within the scope of the SME Transactions Act, if the prime production company, despite there being no reason attributable to the subcontracted production company, causes the subcontracted production company to postpone or extend the production period, perform work different from that under the original contract, or carry out reworking (retakes), and thereby additional costs are incurred by the subcontracted production company, if it fails to pay those increased costs to the subcontracted production company or otherwise unjustly harms the interests of the subcontracted production company, this constitutes an issue under the SME Transactions Act (unjust modification of the content of the performance and unjust reworking) (Article 5, Paragraph 2, Item 3⁹⁹).

In commissions for the creation of information-based deliverables such as films, whether the deliverables satisfy the commissioned content and meet the acceptance criteria may depend in part on the evaluative judgment of the prime production company, and in some cases it is not feasible to specify detailed inspection standards in advance in the purchase order etc. In circumstances where standards are ambiguous and communication is insufficient, differing understandings of the scope of work may result in deliverables that diverge from the required quality level, giving rise to situations in which responsibility is unclear.

In such cases, regardless of whether acceptance has occurred, a prime production company must not unilaterally determine the allocation of costs when requiring retakes on the ground that the content of performance differs from the original commission, even if the relevant standards could not be clearly defined in advance, and thereby unjustly harm the interests of the subcontracted production company; instead, it must determine a reasonable allocation of costs after sufficient consultation with the subcontracted production company, taking into account the circumstances that led to the request for retakes¹⁰⁰.

Even where the SME Transactions Act does not apply, if a prime production company uses its superior bargaining position to require retakes without just cause or to unilaterally change transaction terms, thereby imposing an unfair disadvantage on a subcontracted production company contrary to normal commercial practice, this may constitute abuse of superior

⁹⁹In addition, where the subcontracted production company incurs additional costs due to an extension or postponement of the production period for reasons not attributable to it, and the prime production company fails to pay corresponding additional remuneration, such conduct may also amount to an unlawful reduction of payment under Article 5, Paragraph 1, Item 3 of the SME Transactions Act.

¹⁰⁰See Japan Fair Trade Commission, "Operational Standards for the SME Transactions Act," Part IV, 8(4), and "Text on the Act on Proper Transactions with Small and Medium-Sized Entrusted Business Operator," p.107.

bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act.

(3) Reduction of payment; delay or non-payment

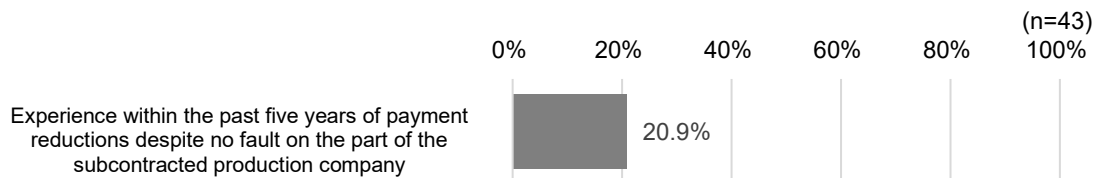
A Actual conditions

(A) Reduction of payment

In the questionnaire survey of subcontracted production companies, as shown in Figure3-49, approximately 20% responded that during the past five years they had experienced "a reduction in payment despite no fault on their part."

In interviews, subcontracted production companies responded that "even after we redid the work, the other party was not satisfied, so not only did they not pay the additional costs for the redoing, but they actually reduced the amount."

Figure3-49 Experience within the past five years of payment reductions despite no fault on the part of the subcontracted production company^[101]



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years

Source: Created based on survey results

[Interview excerpt (32)]

<Subcontracted production company>

- After receiving an order, we may present an estimate and reach an agreement, but the other party may ask us to redo the work because the level of completion is lower than they had requested. The quality that the other party was talking about was not clear at the time of placing the order or when they instructed us to redo the work, and even after the work was redone they were not satisfied, so not only did they not pay the additional costs for the redoing, but they actually reduced the amount. (Reposted)

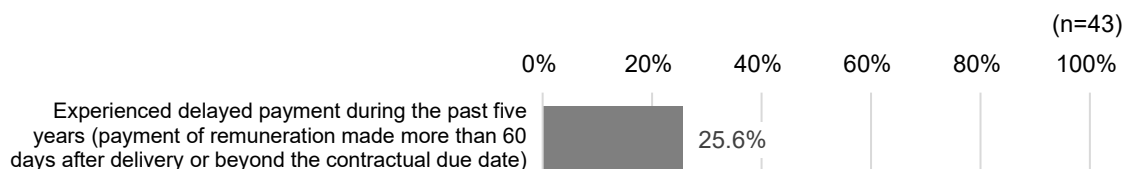
(B) Late or non-payment

In the questionnaire survey of subcontracted production companies, as shown in Figure3-50, approximately 25% responded that during the past five years they had experienced "delayed payment (payment of remuneration made more than 60 days after delivery or beyond the contractual due date)."

In interviews, subcontracted production companies responded, "where the client is a large production company, internal approval procedures, including formal authorization processes, can take considerable time, resulting in delayed payment."

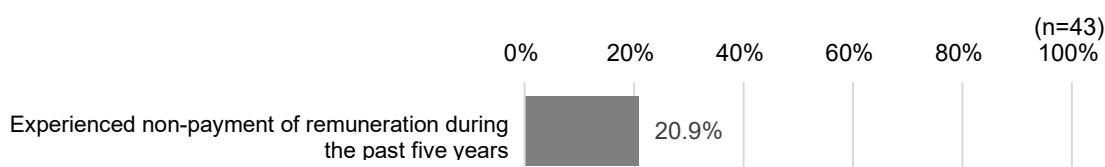
¹⁰¹The percentage shown represents the proportion of companies that responded that they had experienced such conduct at least once during the most recent five fiscal years and does not indicate the rate of occurrence relative to the total number of transactions.

Figure3-50 Experience within the past five fiscal years of delayed payment (payment of remuneration made more than 60 days after delivery or beyond the contractual due date).^[102]



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years
Source: Created based on survey results

Figure3-51 Experience within the past five fiscal years of non-payment of remuneration.^[103]



*Subcontracted production companies were asked whether they had experienced such conduct at least once during the most recent five fiscal years
Source: Created based on survey results

[Interview excerpt (33)]

<Subcontracted production company>

◆Delayed payment

- There are also cases in which schedules are extended and payment is not made as originally expected. In such situations, because we are unable to pay without receiving funds from our business partners, we are compelled to request that freelancers accept delayed payment. Without incoming funds from our business partners, we are unable to make payment.
- Because we must cover personnel costs, we seek to arrange payment on a monthly basis wherever possible. However, depending on the prime production company or the specific project, payment terms may be altered mid-project to vague conditions under which payment is said to depend on the progress of commercial production. These discussions often arise toward the end of the project, on the stated ground that payment will be made only after the Director/Episode Direction has approved the deliverables. Where the client is a large prime production company, internal approval procedures, including formal authorization processes, can take considerable time, resulting in delayed payment.

◆Non-payment

- After delivery, when the payment due date passed without payment and we inquired, we were told, “We do not have the money, so we cannot pay,” and even now, one year later, we have not received payment.

¹⁰²The percentage shown represents the proportion of companies that responded that they had experienced such conduct at least once during the most recent five fiscal years and does not indicate the rate of occurrence relative to the total number of transactions.

¹⁰³Same as above.

B Considerations under the SME Transactions Act and the Anti-Monopoly Act

(A) Reduction of payment

In interviews, subcontracted production companies responded that after delivery, they had to redo the work because it did not meet the client's quality requirements, but the level of quality was unclear and they ended up getting paid a reduced amount from the amount originally agreed upon.

Where a transaction falls within the scope of the SME Transactions Act, if the prime production company reduces the payment despite there being no reason attributable to the subcontracted production company, this constitutes an issue under the SME Transactions Act (reduction of payment) (Article 5, Paragraph 1, Item 3).

Even where the SME Transactions Act does not apply, if a prime production company, by abusing its superior bargaining position, reduces the contractually agreed consideration without justifiable grounds and thereby causes a subcontracted production company to suffer an unjust disadvantage in light of normal business practices, this constitutes an issue under the Anti-Monopoly Act (abuse of superior bargaining position) (Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act).

(B) Late or non-payment

Interview responses likewise indicated cases in which payment was paid late or not at all.

Where a transaction falls within the scope of the SME Transactions Act, if the prime production company, regardless of whether it inspects the contents of the subcontracted production company's performance, still fails to pay the consideration after the expiration of the payment due date set within as short a period as possible and within 60 days from the date of receipt¹⁰⁴ (the date on which the deliverables were received from the subcontracted production company), this constitutes an issue under the SME Transactions Act (delay in payment) (Article 5, Paragraph 1, Item 2).

Even where the SME Transactions Act does not apply, if a prime production company abuses its superior bargaining position by failing, without justifiable grounds, to pay the contractually agreed price by the due date, thereby imposing an unjust disadvantage on a subcontracted production company in light of normal business practices, such conduct constitutes abuse of superior bargaining position under Article 2, Paragraph 9, Item 5(c) of the Anti-Monopoly Act).

In interviews, subcontracted production companies responded, "there are also cases in which schedules are extended and payment is not made as originally expected. In such situations, because we are unable to pay freelancers without receiving funds from our business partners, we are compelled to request that freelancers accept delayed payment. We don't have the money, so we can't make payments unless our business partners pay us." This suggests that in the multi-layered structure of film production, where there are many small production companies with limited financial resources, delays in payments on the part of the

¹⁰⁴If the parties fail to specify a payment due date, the date on which the deliverables are actually received is deemed the due date under Article 3, Paragraph 2 of the SME Transactions Act, and failure to pay by that date likewise constitutes delayed payment under the SME Transactions Act). In film production commission contracts, installment payments of the production commission fee may in some cases include due dates set prior to delivery; in such circumstances, failure to pay by each contractual due date constitutes delayed payment under the SME Transactions Act regardless of whether the deliverables have been accepted.

client are likely to lead to delays in payments to others.

Chapter 3 Transactions between production companies and freelancers

1 Ordering stage

(1) Status of written clarification of transaction terms

A Actual conditions

(A) Status of written clarification of transaction terms

In the questionnaire survey of freelancers, regarding the status of specification of transaction terms in writing¹⁰⁵ in transactions with production companies over the past three years, as shown in Figure3-52, approximately 10% to 20% responded that the “content of work,” “amount or unit price of remuneration,” “payment due date,” and “delivery date,” which are required to be specified under the Act on the Improvement of Freelance and Business Transactions, were communicated in advance in writing.

In interviews, several production companies responded that they specify transaction terms through contracts, order slips, email, etc.; however, some companies stated that they do not specify such terms, and others indicated that freelancers lack knowledge regarding written documentation, such as contracts, including instances where freelancers had signed both the “Party A” and “Party B” sections of a contract.

On the other hand, some freelancers responded that they had never signed a contract, and that the back-office functions responsible for preparing contracts and other documents at production companies were insufficient and that they were unlikely to be provided with written documents. In addition, trade associations responded that the Japan Motion Picture Production Standards Association Guidelines¹⁰⁶ require that a contract specifying the terms and conditions be provided in advance.

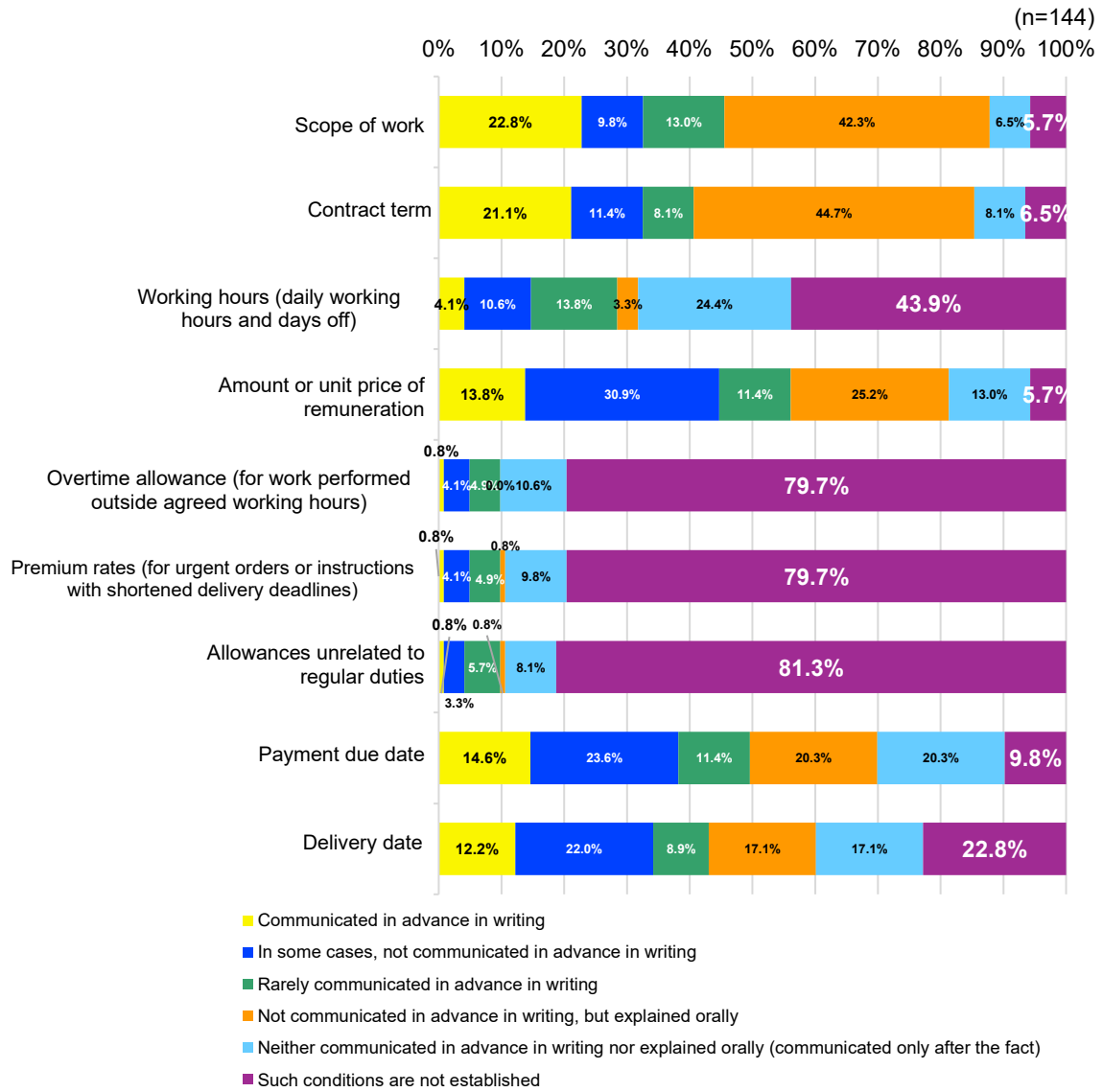
Both production companies and freelancers reported that, following the enforcement of the Act on the Improvement of Transactions between Freelancers and Enterprises¹⁰⁷, they have specified, or have had specified, transaction terms in writing.

¹⁰⁵“Written materials, etc.” refers to documents such as contracts and purchase orders, as well as electronic communications that identify the recipient (including email, SNS, and chat tools), or delivery of electronic files via media such as USB drives or CD-Rs.

¹⁰⁶Japan Motion Picture Production Standards Association and others, “Transaction Guidelines for the Sustainable Development of Film Production” (2023-3)

¹⁰⁷Effective November 1, 2024

Figure3-52 Disclosure of transaction terms in writing or equivalent form in contracts with prime production companies over the past five years.¹⁰⁸



*Freelancers were asked to report trends over the past three years

Source: Created based on survey results.¹⁰⁹

¹⁰⁸The following responses were submitted in the free-text field under "Other."

- The boss might be listening, but I don't know.
- Accommodation allowance
- Amounts related to the use of your own props and equipment
- If the contract term is extended

¹⁰⁹Because percentages are rounded to the nearest second decimal place, totals may not equal 100%.

[Interview excerpt (34)]

<Production company>

◆Responses indicating that transaction terms are specified in writing

- Generally speaking, since we are part of the production committee, we do not enter into direct contracts with freelancers; however, if the director is a freelancer, we may enter into a direct contract with them. In that case, a purchase order is issued.
- We have contracts with freelancers. I'm not sure about small production companies, but isn't it common practice these days to sign contracts?
- We issue purchase orders to freelancers following negotiations. The purchase order specifies the binding period, scope of work, and amount of remuneration.
- We accept orders via email and handle the exchange of paper purchase orders and contracts.
- Due to the influence of foreign companies, the practice of signing contracts has gradually become more widespread over the past decade or so.
- Since the Act on the Improvement of Freelance and Business Transactions came into effect, we have been entering into contracts with freelancers who sign comprehensive service agreements with us, stipulating monthly remuneration. Although we are slow to respond to freelancers who are contracted on a project-by-project basis, we are making an effort to sign simple written agreements.
- Freelancers often refuse to sign contracts even when provided. In the past, some freelancers have even signed both the "Party A" and "Party B" sections of a contract. Therefore, believing that the process of signing contracts would not be effective, we have adopted a system of using purchase orders that can be completed simply by sending them unilaterally.

◆Responses indicating that transaction terms are not specified in writing

- As a production company, we had intended to sign memorandums of understanding with each person, but because we had a relationship of trust, we decided not to sign contracts and instead just paid the fees. We are happy to provide a contract if requested.
- Until now, we have not signed contracts with freelancers, but since the Act on the Improvement of Freelance and Business Transactions came into effect, we have decided to start signing contracts from now on, and are currently in the process of drafting them.

<Freelancers>

◆Responses indicating that transaction terms are specified in writing

- Contracts are signed 70 to 80% of the time. (Cameraman)
- As an industry practice, there have been increasing instances of companies issuing contracts little-by-little due to the COVID-19 pandemic. Before the

COVID-19 pandemic, contracts were not customarily provided. (Cameraman)

- I understand that it has long been recognized within the industry that contracts should be signed when working with freelancers, but it is only recently that contracts have actually begun to be signed at the time of engagement. Until then, no contract was issued. (Scripter)
- The contract is made with the prime production company and is generally in writing. (Assistant director)
- These days, we're signing more and more contracts. Foreign video streaming companies are very solid in this regard, and I think this is influencing how production companies are responding. (Scripter)

◆**Responses indicating that transaction terms are not specified in writing**

- While production companies sometimes send terms and conditions via email, communication is generally done verbally. I have never received any documents outlining the terms of the transaction, not just contracts, but also purchase orders and other similar documents. (Editor)
- Even famous photographers sometimes have never signed a contract. The lack of a department within the production company responsible for drafting contracts is likely another obstacle to the creation of such contracts. (Cameraman)
- Since sound is located downstream in the video production process, the amount of remuneration for sound engineers is determined from the remaining budget after upstream elements such as the cast have been decided. In the production of the short film I was involved in, I received notifications about the script and schedule via email, but my remuneration was never offered until the very end, and no written contract was ever created. (Sound)
- Some production companies are reluctant to provide written documentation. The schedule is fluid, and the fact that the actual situation may differ significantly from what is stated in the contract may be another reason for their reluctance. (Recording)
- Scenario writing jobs often come from requests or referrals from people I've worked with before, and these personal relationships make it difficult to ask for a written contract. Furthermore, since I haven't had any serious problems in my work so far, I don't request written contracts or anything like that unless I feel the request is suspicious beforehand. (Screenwriter)
- Generally, no written contract is issued. (Screenwriter)

<**Trade associations**>

- The Japan Motion Picture Production Standards Association Guidelines require that a contract specifying the terms and conditions be provided in advance.
- I think freelancers in professions that don't qualify for membership in organizations are having a much worse time. I doubt they've ever even seen a purchase order.

- Major film studios have long been able to issue contracts to freelancers when producing films. Smaller production companies are more likely to rely on verbal agreements rather than written documentation.
- There was a case where a temporary staff member had to be arranged on short notice, and because there wasn't enough time to provide written documentation beforehand, it ended up being a verbal agreement.
- Since the Act on the Improvement of Freelance and Business Transactions came into effect, the number of orders issued has increased. Japan Motion Picture Production Standards Association works must adhere to guidelines, so contracts are signed. However, only a small fraction of films are fortunate enough to participate in the Japan Motion Picture Production Standards Association.

<Information submission form>

- When I first started working in the film industry, the contract only listed the amount of remuneration, and the details of holidays and working schedules were unclear.

(B) Timing of written clarification of transaction terms

In a survey of freelancers, as shown in Figure3-53, 4.1% responded that, over the past three years, transaction terms etc. were most often specified in writing "at the time the order was placed," whereas a combined total of 82.9% responded that they were most often specified "after the order was placed but before commencement of film production work," "after commencement of film production work but before delivery (completion)," or "after delivery (completion)."

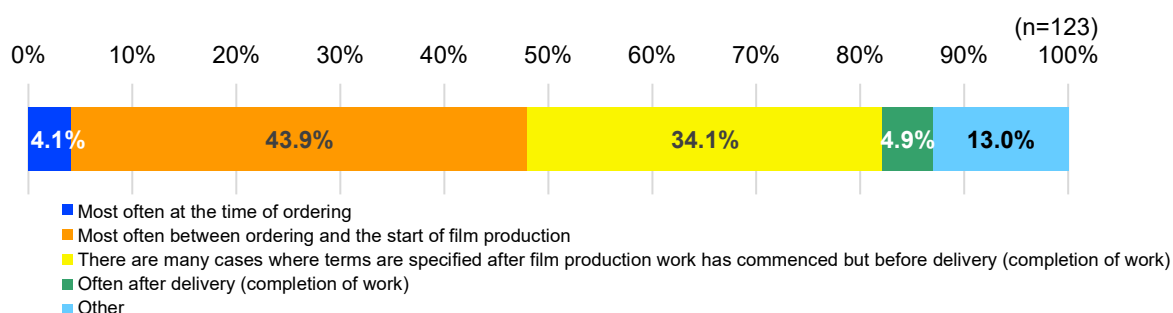
In addition, many respondents who selected "Other" (13.0%) stated that no written documentation was provided at all¹¹⁰.

In interviews, production companies responded that they try to send purchase orders before filming begins, while several freelancers responded that film production begins before the terms of the deal are finalized, and that purchase orders are issued after film production begins. Furthermore, they responded that once film production has begun, they would have no choice but to accept the terms, as they would not be able to switch to another project if the terms were not as desired.

¹¹⁰The following responses were submitted in the free-text field under "Other."

- I often do not receive anything (*six identical responses)
- No written documentation (*six identical responses)
- I don't think I've ever received it.
- The content and deadline will be outlined when the request is made. Others (including amounts) are after the fact.
- I received the contract but didn't have time to carefully review its contents before signing it, and I was told to sign and return it by today or tomorrow.
- Just before film production begins (shooting starts)

Figure3-53 Timing of specification of transaction terms etc. in writing over the past three years



*Freelancers were asked to report trends over the past three years

Source: Created based on survey results

[Interview excerpt (35)]

<Production company>

- Basically, we try to send out purchase orders (to freelancers) before filming begins.
- Freelancers, who are contracted on a project-by-project basis, often work for competing companies, requiring adjustments to working periods and schedules across multiple projects. However, the filming schedule for each project is not clear until just before filming begins, and they are contacted well in advance of the start of filming. This makes it difficult to estimate the work period and remuneration beforehand, which is a factor in the delay in providing written documentation.
- In practice, the initial contact regarding the order is made via email or similar means, and then a written contract is exchanged between the completion of the work and its publication.
- The certificate will be issued on the day you start work or the following day. Our general affairs department has established a rule that requires a contract to be presented before entry to relevant parties, in order to foster the practice of signing contracts with freelancers within the company. As a result, we are now able to issue them more quickly.

<Freelancers>

- The contract is usually issued during the initial meeting. (Assistant director)
- A specific contract period is not provided at the start of the transaction. It's simply a matter of estimating the time required based on the task content and then confirming it. (Editor)
- Even if the production company is a large company, they don't exchange purchase orders or contracts before starting work. When starting work, the remuneration and duration are generally not specified, and the terms of the contract are not known at all. The scope of work is often unclear. Often, after the screenwriting process has actually begun, or even when the screenplay is nearing completion, a contract or purchase order is only issued when urging is made. Also, there are cases where the

purchase order and contract are not completed until the end. (Screenwriter)

- Contracts are often signed after work has begun. Even if there is a contract, there is no going back once the facility is operational, so I think it is a problem that it was signed so late. (Cameraman)
- I don't think there's any particular reason why the production company can't exchange contracts, but it seems that this situation arises because the total cost cannot be determined until things have started moving forward. For example, costs are influenced by the filming location, but there are situations where the location cannot be decided until a location scout is conducted. However, I think the compensation should be decided before the work begins. (Cameraman)
- Equipment preparations and other related tasks begin about one to two weeks before filming starts. At the very least, we try to complete negotiations on terms before filming begins. Depending on the site, negotiations may not be successful, and sometimes the terms may not be agreed upon until after filming has begun, resulting in work proceeding without the finalized terms being clearly stated. If negotiations aren't finalized before filming begins, it's not realistic to immediately switch to another project. As long as the project is underway, we can't simply say, "I'll refuse under those conditions," and have no choice but to accept the terms offered. In that sense, we are often in a relatively weaker position. (Cameraman)
- The payment due date for remuneration is not disclosed at the start of the transaction. Once the work is completed and the invoice is submitted, the payment is transferred. (Editor)
- Film production companies are slow to issue contracts. Often, the contract is presented not at the time of signing, but after work has begun, such as during a costume fitting meeting. (Scripter)

B Interpretation under the Act on the Improvement of Transactions between Freelancers and Enterprises

According to interviews, some respondents indicated that, partly due to the enforcement of the Act on the Improvement of Freelance and Business Transactions, transaction terms are being specified in writing; however, the questionnaire survey of freelancers shows that, as shown in Figure3-52, 10 to 20% responded that items subject to a statutory duty of specification under the Act on the Improvement of Freelance and Business Transactions, such as "content of work," "amount or unit price of remuneration," "payment due date," and "delivery date," were "communicated in writing in advance," suggesting that specification of transaction terms in writing remains insufficient in many cases. With respect to the timing of specification of transaction terms, as shown in Figure3-53, only 4.1% responded that terms are most often specified "at the time the order is placed," whereas a combined total of 82.9% responded that they are most often specified "after the order is placed but before commencement of film production work," "after commencement of film production work but before delivery (completion)," or "after delivery (completion)," indicating that even where terms are specified in writing, this frequently occurs after the work has already been commissioned.

Under the Act on the Improvement of Transactions between Freelancers and Enterprises, when a production company, acting as a commissioning business operator, outsources work to a freelancer, it must immediately disclose the required items.^[11] by providing written documentation, such as a purchase order, that sets out the transaction terms (Article 3, Paragraph 1 of the Act on the Improvement of Transactions between Freelancers and Enterprises)^[12].

As with transactions between production committees and prime production companies (see Section 1.1(1)(i) above), where it is difficult at the ordering stage to determine detailed transaction terms, the Act on the Improvement of Transactions between Freelancers and Enterprises permits items with legitimate grounds for indeterminacy to be treated as undetermined items, provided that supplemental disclosure is made immediately once the content is determined (Article 3, Paragraph 1, proviso of the Act on the Improvement of Transactions between Freelancers and Enterprises); accordingly, production companies are required to disclose confirmed items immediately in writing, and, after sufficient consultation, to determine undetermined items as promptly as possible and promptly issue supplemental written disclosure.

(2) Status of transaction consideration (remuneration)

A Actual conditions

(A) Compensation levels

In a survey of freelancers, regarding methods of receiving remuneration over the past three years, as shown in Figure3-54, approximately 60% responded that they receive “monthly (fixed remuneration),” while just over 30% said they receive “per-project (fixed remuneration).”

Regarding compensation levels, as shown in Figure3-55, approximately 15% of freelancers said their income had "increased" over the past 10 years, while approximately 20% reported that they had decreased, and approximately 60% reported that they were about the same.

With respect to satisfaction with remuneration levels, as shown in Figure3-55, 5.7% responded that they were “satisfied,” while approximately 90% responded that they were “not satisfied.” Among those dissatisfied, approximately 90% responded that this was “because remuneration has not kept pace with rising prices” or “because the base remuneration/unit price is low to begin with.”

In interviews, production companies responded that the overall level of remuneration for freelancers is rising. On the other hand, some respondents indicated that while remuneration for positions held by relatively inexperienced young people, such as production assistants

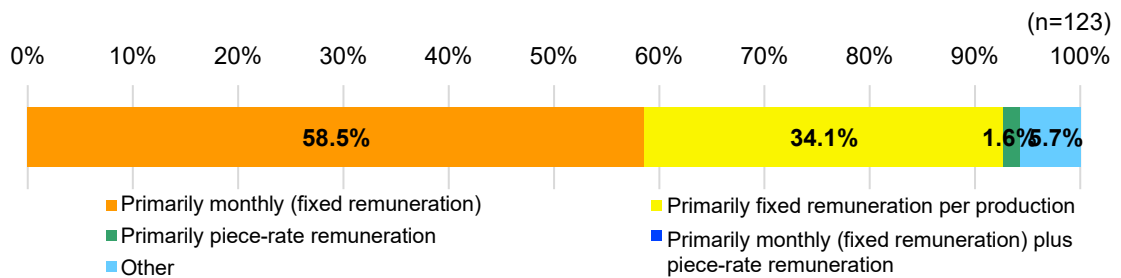
¹¹¹ (1) Name of the commissioning business operator and the specified entrusted business operator, (2) Date of outsourcing, (3) Details of the performance to be provided by the specified entrusted business operator, (4) Date of receipt of the performance or provision of services, (5) Place of receipt of the performance or provision of services, (6) Where inspection of the performance is required, the date by which inspection will be completed, (7) Amount of remuneration and payment due date, (8) Where remuneration is paid by a method other than cash, matters relating to the method of payment.

¹¹² With respect to required disclosure items whose specific content cannot be determined for legitimate reasons (undetermined items), it is not necessary to state the substantive content at the time of outsourcing; however, the reason the content cannot be determined and the scheduled date by which the undetermined item will be finalized must be disclosed at the time of outsourcing.

and third assistant directors, have increased, remuneration for higher-ranking staff members, such as directors and technicians, have not risen. One reason cited for the inability to raise compensation was that “it is difficult to increase these staff members’ pay unless production commission fees go up” suggesting that transaction terms between production committees and prime production companies, as well as between prime production companies and subcontracted production companies, may influence freelancers’ remuneration levels.

Freelancers responded that, "the market rate for scripters hasn't changed in 30 years," and "I can devote myself to one project for over a year. In the case of a film with a production budget of 50 million yen, a rookie director's fee would not even reach 5 million yen. One responded that "if you work as a chief assistant director for seven months, you will earn more than the director," suggesting that remuneration levels vary depending on the job.

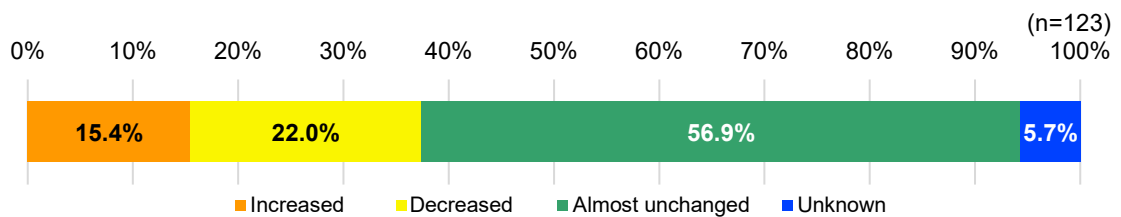
Figure3-54 Remuneration structure for film production work over the past three years



*Freelancers were asked to report trends over the past three years

Source: Created based on survey results

Figure3-55 Changes in remuneration levels over the past 10 years



*Freelancers were asked to report trends over the past 10 years

Source: Created based on survey results

Figure3-56 Satisfaction with the level of remuneration in film production work

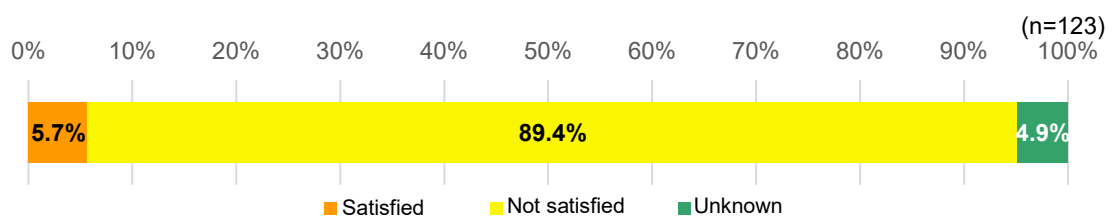
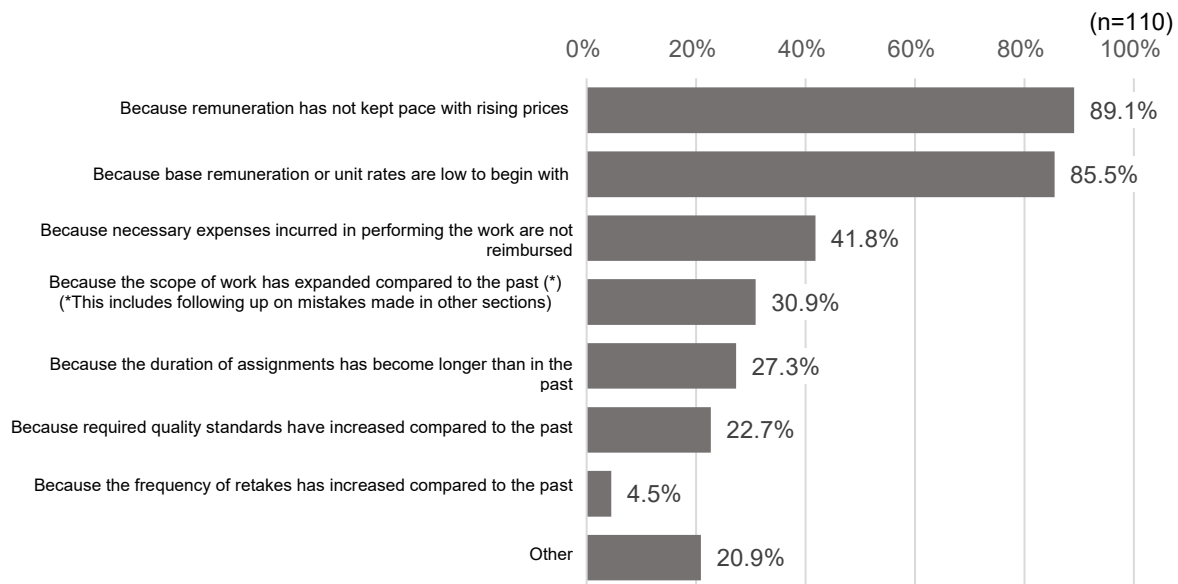


Figure3-57 Reasons for dissatisfaction with remuneration levels in film production work (multiple responses)¹¹³



Source: Created based on survey results

[Interview excerpt (36)]

<Production company>

◆ Responses indicating that remuneration levels are rising

- Due to factors such as price increases and labor shortages, freelancers' remuneration is on the rise. Until recently, the standard monthly remuneration for an assistant was 700,000 yen, 500,000 yen, or 300,000 yen, depending on the assistant's rank, but recently it has increased to 1 million yen for engineers, 750,000 yen for chief assistants, 500,000 yen for second assistants, and less than 350,000 yen for third assistants. We do not negotiate prices ourselves; we accept the price quoted by the freelancer.
- In recent years, the high remuneration offered by major foreign-owned streaming platforms has influenced and led to an increase in remuneration for other users.
- In the past, in order to protect the company's profits, it was common for companies to keep the remuneration paid to freelancers and subcontracted

¹¹³The following responses were submitted in the free-text field under "Other."

- I think it's unfair to book a month's schedule and only pay for the days that are actually filmed during that period.
- Because they require high quality in a short amount of time.
- The remuneration is not commensurate with the duration (in years) of employment.
- Payment is slow
- They talk about market rates from 50-60 years ago.
- The level of pay hasn't changed in over 20 years.

production companies low, but these days, due to external pressure from the government, it is no longer possible to lower the fees paid to freelancers and subcontracted production companies. The company informed producers and line producers that they would not unnecessarily reduce the fee as long as it was within budget, even without negotiations from freelancers.

- While our remuneration levels are lower compared to foreign-owned companies, we believe we pay our freelancers a high level compared to other companies in Japan, roughly 1.5 times the normal rate.
- Currently, the market is a seller's market for almost all jobs except those with titles such as director or engineer, and in some cases, freelancers are in a stronger position than production companies. There is a particular shortage of production managers and third assistant directors, and their remuneration is rising.

◆Responses indicating that remuneration levels are low depending on role

- Since freelancers don't work constantly, their annual income isn't necessarily high. In particular, for third assistant directors, the filming period involves 11 hours of shooting plus 1.5 hours of preparation before and after, which could result in wages falling below the minimum wage. However, due to the recent surge in demand, it has become possible for freelancers to work without interruption. Increased talent mobility between television and streaming services has boosted demand, while the lack of young people entering the field has led to a decrease in supply.
- While filmmakers often employ various freelancers, directors often feel they are unfairly treated in terms of remuneration. Because a director needs to focus intensely on a project, they can only direct about two or three films a year. Directors receive royalties such as director's royalties, but in this day and age, DVDs don't sell well, and directors also have other duties such as publicity and location scouting at their own expense, so I think the base remuneration needs to be increased.
- For example, the remuneration for assistant directors is said to be based on a "7-5-3" system, with the average monthly salary being 700,000 yen for a chief director, 500,000 yen for a second assistant director, and 300,000 yen for a third assistant director. The market rate hasn't changed much in the last 30 years or so. Unlike regular company employees, freelancers have to bear the costs of social insurance and future finances themselves. In the past, the amount they received was still quite good, but now that prices have risen, it has become relatively low.

◆Reasons why freelancers' remuneration cannot be increased

- Due to budget limitations, the remuneration of staff above the entry-level staff (engineers, chiefs, second assistants, etc.) have not increased (and cannot be increased). It will be difficult to raise the remuneration of these staff members unless

production commission fees increase.

◆**Other**

- Freelancers who are contracted for each project are contracted on a daily basis. In some cases, the amount may be increased if the job is labor intensive.
- Freelancers will not negotiate for an increase in the contract amount. The freelancers we do business with are all people we have had long-standing relationships with, and we understand each other's circumstances and what prices are reasonable.
- The amount of remuneration varies depending on the freelancer's position and career. The price is decided through individual negotiations with the freelancer based on a general sense of the market rate.
- Most freelancers, including makeup artists, are paid monthly per project (during the project period). As mentioned earlier, the remuneration structure is often based on a "7-5-3" system of 700,000 yen, 500,000 yen, and 300,000 yen, depending on the position.
- While the monthly rates for freelancers in the film industry are relatively high compared to those in other industries, this is not unusual because freelancers in the film industry don't work continuously throughout the year, and the amount they earn is necessary to make a living even during periods when they are not working. However, in recent years, the rise of foreign video streaming companies has driven up remuneration, and coupled with a shortage of talent, production companies have been competing fiercely for talent. As a result, freelancers can now work without any free time in their schedules. These days, I'd say half the year is filled with production work for streaming. Ideally, we should reconsider the market rate to take into account available time.
- When the budget is tight, we give opportunities to younger people. Based on the "7-5-3" system, we give a chief position to a freelancer in a second position earning 500,000 yen per month, creating a relationship where our company can keep costs down while the freelancer seizes an opportunity. In addition, we consider who to commission based on the overall production commission fees, adjusting the number of freelancers we use depending on the amount of the production commission fee budget.

<Freelancers>

◆**Remuneration system/structure**

- In the case of films, the cinematographer and assistant cinematographer are paid per film. Actual expenses are limited to things like transportation and gasoline costs, but usually the production company will cover them if you request it. (Cameraman)
- The assistant director negotiates with the production company's line producer, and the chief assistant director also negotiates the salaries of assistant directors below the second assistant director level. The market rate for remuneration is "7-5-3" per

month, meaning a chief assistant director earns 700,000 yen, a second assistant director earns 500,000 yen, and a third assistant director earns 300,000 yen. If a fourth assistant director (newcomer) is assigned, the salary will be around 200,000 yen. The market rate hasn't changed in 10 years. Recently, there's been talk of raising the unit price. (Assistant director)

- Because the director oversees the entire production, they dedicate more than a year to a single project. In the case of a film with a production commission fee of 50 million yen, a rookie director's fee would not even reach 5 million yen. If you work as a chief assistant director for seven months, you will earn more than the director's salary. Even for a renowned director, the fee for working for two years is only around 15 million yen, which is not particularly high. (Assistant director)
- The market rate for scripters hasn't changed in 30 years. I hear that the Japanese Society of Script Supervisors is also working to do something about it. I was shocked to learn that scripters, who are considered key staff members like cinematographers and are listed high in the credits, receive the same remuneration as the chief of the shooting department. If you have an engineer/assistant, it's easy to raise the engineer's salary as you raise the assistant's salary, but for jobs without assistants, like scripters, there's no opportunity to raise their salary. (Scripter)

◆Responses indicating that remuneration levels are insufficient

- The market rate hasn't changed at all. I'm dissatisfied with the market because it doesn't reflect the rise in prices and labor costs. (Cameraman)
- The amount of equipment provided by the production company in addition to the remuneration has not changed since then, but now, due to digitalization and rising prices, the cost of equipment has risen and maintenance costs have also increased, so the actual take-home pay has decreased. (Recording)
- The market rate has hardly changed in the last 20 years, and it is not a satisfactory price. If the price is lower than the market rate, I will negotiate. There is a standard number called "7-5-3," and this also applies to lighting; it is fine to understand that the lighting technician should be 7, the chief 5, and the assistant 3. When I was an assistant, I was paid on a monthly basis, but after becoming a lighting technician, I was paid per shot. Since lighting engineers are involved from the preparation period, such as location scouting, there are cases where it seems that there is not much difference in the total remuneration between lighting engineers and chiefs. (Lighting)
- Perhaps because the director had no understanding of sound work, we were not reimbursed for the expenses we incurred in the film production, and as a result, we were only paid 30,000 yen, including expenses. (Sound)
- The remuneration for an assistant in this industry is said to be "7-5-3," but it is now around "6-5-4," and the remuneration of a chief is on the decline. These rates may seem high on paper, but considering you work 16 hours a day for 30 days, they are actually low when converted to hourly wages. I sometimes work with film crews

from overseas, and when I talk about the environment of Japanese film crews, everyone says it's crazy. (Cameraman)

<Trade associations>

- There is no culture of estimating labor costs based on man-hours; the prevailing method is to set a fixed amount as compensation for the time spent on the job on a monthly basis. Previously, there were no restrictions on working hours, leading to accusations of "unlimited work for a fixed salary." However, now that the Japan Motion Picture Production Standards Association Guidelines have set limits on working hours, it should no longer be the case that the compensation per unit of time becomes excessively low.
- Remuneration hasn't increased. The film industry has a structure where wages don't rise easily because there are people who want to make films even with low pay.

(B) Status of remuneration negotiations

In a survey of freelancers regarding negotiations over remuneration amounts and unit prices, as shown in Figure3-58, approximately 10% responded that, over the past three years, "there is a forum for negotiation and conditions can be adjusted to a satisfactory level," and just under 60% responded that "there is a forum for negotiation and conditions can be adjusted, though not to a satisfactory level."

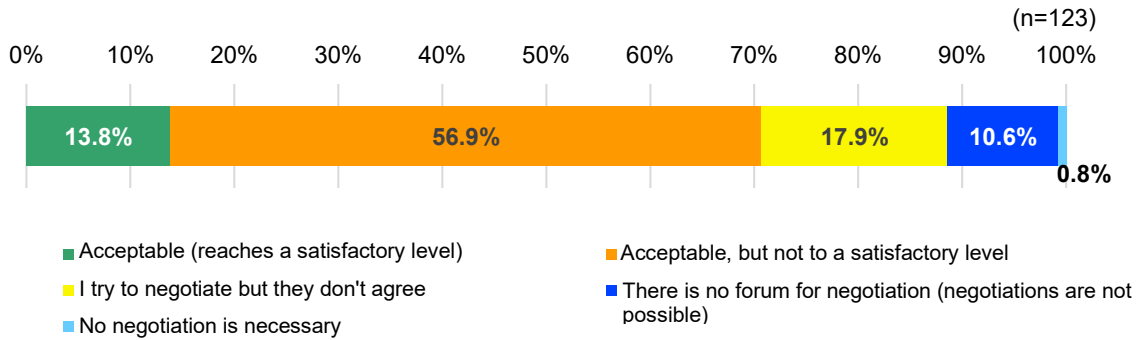
In interviews, production companies responded that they were unable to fully respond to negotiations with freelancers, including on the amount of remuneration, because production commission fees had not increased.

Freelancers responded that "depending on the production company, it is possible to negotiate remuneration to some extent" and that "since there is a general market rate, negotiations rarely become difficult." On the other hand, some expressed the view that their bargaining position is weak and makes negotiation difficult, stating: "Since negotiating over remuneration could result in losing future job offers, it's hard to negotiate unless the amount offered is clearly below market rates. I've seen several people who, as a result of aggressively negotiating their pay, were shunned by production companies and actually lost work." Additionally, some respondents noted that the practice of receiving job offers through personal connections makes negotiation difficult, stating, "Because this is a line of work that requires building and maintaining good relationships with production company producers and directors due to the custom of receiving work through personal connections, it is frustrating that we cannot negotiate firmly with production companies." They also responded that they could only return to market rate after negotiations.

Furthermore, some respondents indicated that if negotiations regarding remuneration and other terms were to begin after the work started, they would have no choice but to accept the terms offered, as they could not simply quit. Some responses indicated that there is a difference between the actual work period and the period covered by the contract, such as when remuneration is offered near the end of the preparation period and the preparation period is not covered by remuneration. This suggests that starting work while the terms of

the transaction are unclear could lead to problems.

Figure3-58 Negotiation status regarding remuneration amounts and unit rates over the past three years



*Freelancers were asked to report trends over the past three years
Source: Created based on survey results

[Interview excerpt (37)]

<Production company>

◆ Answers stating that negotiations are conducted

- Compared to the past, younger people seem to be less resistant to negotiations. However, those who are fixated on remuneration tend to end up leaving the film industry, and it cannot be said that the retention rate of young talent is high. Our company is also working to improve the working conditions for freelancers. Beyond remuneration, we are also working to improve the working environment by, for example, enhancing craft services such as catering.
- For freelancers, we negotiate contract amounts on a one-to-one basis. Our company determines remuneration flexibly, taking into account not only position but also individual circumstances such as having a family. Furthermore, the agreed-upon terms are open to the freelancers working on the project, allowing them to check the remuneration of other freelancers.
- Just like in normal business transactions, bargaining and being bargained for are natural occurrences, and I don't see any problem with the negotiation process itself. Labor costs, like fixed costs, are difficult to reduce, but I want to negotiate to cut labor costs as much as possible to create more flexibility in production budgets. When working with a partner for the first time, negotiations start by offering a low price in case the quality of the deliverables is lower than expected or there are problems with the way the work is being carried out.

◆ Answers indicating that there are cases in which there are no negotiations

- Line producers negotiate with dozens of staff members in turn, and from the perspective of whether they will fit within the budget, they believe that it can be difficult to promise payment at an early stage, for example, because it is difficult to

determine the labor costs of the production department when the labor costs of the filming department have not yet been determined.

- Freelancers rarely ask for unreasonable amounts of money. In the first place, the percentage of people who ask to negotiate the amount of remuneration offered is low, and for a work that involves 30 to 40 people, only two or three people will ask for a raise.
- Freelancers will not negotiate for an increase in the contract amount. The freelancers we do business with are all people we have had long-standing relationships with, and we understand each other's circumstances and what prices are reasonable.
- I've heard from the freelancers we've contracted with so far that our terms are very favorable. In fact, freelancers almost never negotiate for a price increase.

◆Other

- If you offer a fee significantly lower than what freelancers expect (the market rate) during pre-production negotiations, they will readily choose to "drop out" in the current seller's market for production staff. However, we may offer lower rates than the market rate with the expectation that staff will negotiate for higher remuneration.

<Freelancers>

◆Answers stating that negotiations are conducted

- Negotiations regarding the amount of remuneration are conducted when a request is made to make it at the market rate if it is too low, or when a request is made to provide allowances to second assistants if there is no chief assistant. If the content is reasonable, they will usually accommodate it. (Cameraman)
- Remuneration is negotiable. The extent to which negotiation is possible depends on the project and the production company. The lighting technician negotiates their own salary with the production company, while the chief negotiates the salaries of the chief and assistant with the production company. In negotiating remuneration for the chief and assistant, production companies sometimes request that the team (excluding the lighting engineer) be divided amongst themselves, for example, 3 million yen per month. (Lighting)
- The main topic of negotiations is remuneration. The amount of the payment is negotiated depending on the length of the commitment, and the remuneration is negotiated with the production company. In addition, the cinematographer will negotiate the amount for the assistant cinematographer. Since there's a generally established market rate, negotiations don't usually become difficult. (Cameraman)
- If remuneration isn't indicated, I make sure to ask for it myself. If the compensation is too low, I will negotiate for an increase. (Editor)
- When I did business with a production company I had worked with several years ago, they offered me the same remuneration as before. However, I negotiated, saying, "I've gained more experience, so I can't accept the same amount as a few

years ago. Could you increase it by 50,000 yen per month?" At that time, he responded, "50,000 yen is difficult, but I can increase it by 30,000 yen," and we reached an agreement. In this way, depending on the production company, it is possible to negotiate remuneration to some extent. (Scripter)

- With my current work for video streaming platforms, not only do I start receiving remuneration during the preparation period, but I am also able to negotiate my remuneration from the time I request the job (three months before preparation begins), which I find very helpful. I think it's normal (in other industries) to be informed of the remuneration first when requesting a job, but in the film industry, remuneration is presented to staff members so late that it almost makes you feel grateful to get anything. (Scripter)

◆ **Answers indicating that sufficient negotiations are not, or cannot be, conducted**

- Bringing up price levels during negotiations can sometimes annoy the client, making it difficult to do so. (Editor)
- If I try to negotiate to increase the remuneration, I am worried that they will not do business with me in the future, so it is difficult for me to negotiate on my own. In fact, bringing up the topic of remuneration can sometimes cause the other party to become unfriendly. (Screenwriter)
- Freelancers are in a weak position compared to production companies. Even if a freelancer is dissatisfied, it is difficult to negotiate considering future relationships, and they cannot express everything they are thinking. If you have had previous dealings with the person, it can be even more difficult to negotiate. (Cameraman)
- Even when we negotiate with the production company to increase the overall budget for the sound department, they refuse, saying, "You can manage somehow," and tell us to adjust within the budget. Because it is customary to receive job offers through word of mouth, it is a job that requires building and maintaining good relationships with producers and directors at production companies, so it is frustrating that I cannot negotiate forcefully with the production company. (Recording)
- There is a concern that negotiating remuneration will prevent you from getting another job. When I actually tried to negotiate my remuneration, I was implicitly threatened with the words, "It's easy to blacklist you." (Editor)
- When negotiating with the production company to increase the remuneration, they may hint at a reduction in the scope of the work they are entrusted with, such as "We can separate the recording and sound editing (which are usually requested together) and ask someone else to do the sound editing," which could lead to a reduction in the remuneration. (Recording)
- Negotiating remuneration and other details can lead to a risk of not being offered another job, so it is difficult to negotiate unless you are offered a price that is clearly below market value. I have seen several people who have been shunned by production companies and have actually lost their jobs as a result of vigorously negotiating their remuneration. If you actively negotiate for remuneration, you will

get a bad reputation as "greedy for money" and other production companies will shy away from you, so even if you have the ability and skills, it is difficult to negotiate. (Recording)

- It is difficult to negotiate remuneration with a production company before work begins. When accepting work at the invitation of a director or other person with whom you have a regular relationship, you want to avoid causing any inconvenience to the director, and when it's your first deal, you have to be on the lookout and it's difficult to negotiate aggressively. (Scripter)
- Freelancers should be able to decide their own fees without being bound by market rates, but because job offers come through close friends, and because production companies set a budget for the entire directing department as a framework, if one assistant director's monthly rate is increased, the monthly rates of other assistant directors will be reduced, it is difficult to demand a fee above market rates. (Assistant director)

◆Examples of cases where negotiations finally brought the price back to market levels

- I have never been offered higher-than-market remuneration. The production company always offers a price lower than the market rate, perhaps in anticipation of negotiations, so I at least negotiate to bring it back to the market rate. On the other hand, instead of raising the price to the market rate, compromises are made on terms such as accompanying the filmmaker for one month on location scouting during the preparation period while paying half a month's worth of fees, reducing equipment costs by 100,000 yen, assigning a low-paid apprentice to the third person, and not assigning an assistant for finishing (which would effectively increase the amount of work). As such, even just to get back to the market level, we are forced to accept transaction terms that are unfavorable to us. (Recording)
- Production companies determine the total labor costs for each department, such as the filming department and the sound department. Basically, the amount offered is lower than the market rate, and even if you can increase it, it will only be enough to bring it back up to the market rate. Even after negotiations, remuneration is often lower than the market rate. In such cases, adjustments are made, for example, by reducing the salaries of other staff members in the recording department in order to increase the salary of one staff member. (Recording)

◆Regarding the timing of negotiations

- In the film industry, it's customary to discuss remuneration after the contract period has begun. Negotiations are conducted with the line producer who manages the budget. In some cases, the other party will make a proposal that leaves room for negotiation, such as "How about X0,000 yen?" However, it is rare to negotiate and get the amount you want. (Assistant director)
- I have tried to negotiate for increased remuneration, but it was refused. (While that in itself is fine as it is a negotiation,) even if the remuneration is not satisfactory,

the negotiation takes place at a time when commitments have already been made, so if I were to quit at this point, I would feel that it would cause trouble for the senior colleague who invited me and the staff around me, so I cannot quit. Also, if you step down after the project has started, there is a risk that you will no longer be contacted by the production company or your senior colleagues (due to the inconvenience caused). If we could negotiate the remuneration before the commitment began, it would alleviate that emotional burden and make negotiations easier. (Assistant director)

- The remuneration is generally presented once the preparation period has begun, and since you have already started work, if it is lower than the expected compensation (market rate), you will have no choice but to accept it as you will not be able to take on other work at that point and will not be able to quit. Therefore, production companies should present terms such as the amount of remuneration when requesting work from staff. (Scripter)
- When a producer or other professional offers a job, they rarely mention remuneration. There are certain things that the staff needs to confirm at that time, but there is a lot of information to ask about, such as the work, work content, schedule, etc., so confirming remuneration often ends up being put off until later. If I don't confirm the remuneration, I might have a bad experience later on and it could lead to trouble, so I want to check, but when accepting an order, it's hard to bring it up because of personal relationships. (Scripter)
- Once the preparation schedule is communicated, if you are able to attend the meeting, operations will begin on that day. Sometimes the fee is discussed during the meeting, but sometimes it is negotiated towards the end of the preparation period (just before filming). (Scripter)

◆Answers indicating that the period for remuneration and the scope of work are unclear

- The remuneration may be per film, or it may be monthly remuneration multiplied by the period. In the former case, the remuneration for location scouting before filming is also included. In the latter case, if you ask for a separate remuneration for location scouting, you may be told that this is included in the remuneration for the filming period, and negotiations are often not accepted. I believe this is due to the fact that the details of the work presented at the time of signing the contract are unclear. (Cameraman)
- Just because work is performed during the preparation period does not necessarily mean that it is a contractual binding period (a period during which remuneration is generated). For example, near the end of the preparation period, the production company offered remuneration for the period "after filming begins," and work done during the preparation period was not counted. This means working for free during the preparation period. Even if remuneration is paid for the preparation period, it may not cover the entire period. For example, if art meetings and preparations begin in mid-May and filming begins on June 10, work will have begun in mid-May.

However, the contract with the production company stipulated that the production would begin on June 1, and the remuneration for the two weeks of work that took place during the preparation period was cut. It is common to only receive remuneration for a portion of the work we do during the preparation period. (Scripter)

- If terms of the transaction, such as the remuneration period and monthly remuneration amount, are presented at the end of the preparation period, staff will be working without knowing whether they will be paid during the preparation period or what the remuneration amount will be, and they will not be able to quit at that point even if they are dissatisfied with the conditions presented. (Scripter)

◆Other

- It's not so much the job content itself, but rather the feeling that the compensation isn't sufficient for the hours I work. (Cameraman)
- In many cases, it is unclear whether the remuneration includes tax (it is not clearly stated). In my case, I generally issue invoices excluding tax, which is accepted. (Cameraman)
- Normally, when a request is made, the terms of remuneration and other conditions should be communicated, and after negotiations, an agreement should be reached, with the person saying, "This amount is fine," before work can begin. However, the film industry's practice of presenting terms after work has begun is strange. (Assistant director)
- Whether the negotiations go well or not depends on the production company and line producer, and of course there is a chance that they will be turned down. For a while after I entered the industry, I lacked the knowledge and confidence to negotiate. I was able to negotiate only after I gained experience and gained confidence that I could achieve results. (Assistant director)
- The remuneration remains the same even for works produced by foreign video streaming companies. Foreign video streaming companies outsource production to Japanese subcontracted production companies, so freelancers end up signing contracts with Japanese subcontracted production companies, and their remuneration remains the same. (Assistant director)

<Trade associations>

- In a previous project I directed, I was offered half the market rate, but even though I negotiated, I couldn't raise it because a more established freelancer than myself still accepted the job.

(C) Remuneration other than consideration for services, such as success remuneration

In film production, in addition to the production commission fee paid as consideration for services, contractual terms may provide for royalties etc. calculated by applying a specified rate to secondary use revenues earned by the production committee or other rights holders.

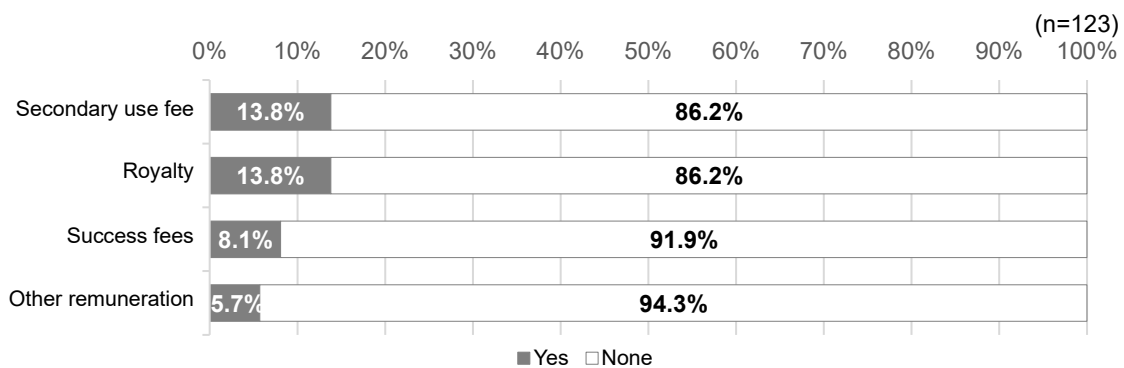
In a survey of freelancers, as shown in Figure3-59, regarding whether they had received remuneration other than consideration for services during the past three years,

approximately 14% responded that they had received “secondary use fees” or “royalties,” approximately 8% responded that they had received "success fees," and approximately 6% responded that they had received other types of remuneration. Those who reported receiving such remuneration were engaged in occupations including director, screenwriter, assistant director, and stills¹¹⁴.

In interviews, production companies responded that they had paid additional remuneration to staff members who were originally paid less or who had been excellent and contributed well. While some freelancers responded that they had received prizes, several also said that they had never received success fees or the like.

These findings indicate that remuneration other than consideration for services, such as success-based remuneration, is not broadly paid to freelancers in general and appears to be paid only in limited occupations, etc.¹¹⁵

Figure3-59 Whether respondents received remuneration other than production commission fees during the past three years¹¹⁶



*Freelancers were asked to report trends over the past three years
Source: Created based on survey results

¹¹⁴ A profession that involves taking still images for use in movie posters and other promotional materials.

¹¹⁵ For example, screenwriters, who are mainly members of the Japan Screenwriters Association, generally receive royalties on top of compensation for their work (script fees). According to the Association's royalty regulations, in the case of anime production transactions, the production committee pays script royalties equal to a certain rate multiplied by the production committee's income (e.g., 3.5% of the sales price to the distribution company).

¹¹⁶The following responses were submitted in the free-text field under "Other remuneration."

- Large bag
- Blu-ray and DVD of the work
- The company misunderstood the work content, so a small amount was added to correct the amount.
- Photobook shooting fee
- They signed an incentive contract with me. A few percent of the net profit from the work was returned to the staff as remuneration.
- Event appearances and interviews

[Interview excerpt (38)]

<Production company>

◆Answers stating that success-based remuneration is paid

- If there is any surplus in the budget when filming wraps up, a small amount of additional remuneration may be offered. It is for people who were originally paid less and who have made outstanding contributions.

◆Answers stating that no success-based remuneration is paid

- We do not pay freelancers success fees.

<Freelancers>

◆Answers stating that success-based remuneration has been received

- It's not cash, but at the bingo tournament held at the launch party after the film is completed, the main actor offers additional prizes such as gift certificates for a certain high-end yakiniku chain restaurant, and a trip to Hawaii. (Cameraman)
- There is almost no success fee. I have over 20 years of experience, but this has only happened once. (Lighting)

◆Answers stating that success-based remuneration has never been received

- There are no success fees or royalties for the shoot. (Cameraman)
- Some of the films I have worked on are now available for streaming, but I have not heard of any profits being passed on to the production staff. (Sound)
- Aside from prize money for winning an award, I have never received any success fees in the past. Even in the industry, I've never heard of a pay increase just because something is a hit. (Sound)
- I have never received a success fee. I have had the experience of receiving commemorative novelty items when my work won an award. (Scripter)

<Trade associations>

- The profits from unexpectedly successful independent productions rarely go back to the creators.

B The Act on the Improvement of Transactions between Freelancers and Enterprises, perspective under the SME Transactions Act

(A) Unjust price reduction

As mentioned above in (2) A(A), with regard to the level of remuneration, just over 10%

of freelancers responded that their remuneration level has "increased," approximately 20% responded that it has "decreased," and approximately 60% responded that it has "remained almost unchanged." In addition, approximately 90% of freelancers are not satisfied with their current remuneration level.

Although such circumstances do not in themselves constitute a violation of the Act on the Improvement of Transactions between Freelancers and Enterprises or the SME Transactions Act, where a transaction falls within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if a production company, in dealing with a freelancer, fails to take into account circumstances such as rising prices and unjustly sets the amount of remuneration at a level significantly lower than the ordinarily paid consideration, this constitutes a problem under the Act on the Improvement of Transactions between Freelancers and Enterprises (unjustly low pricing) (The Act on the Improvement of Transactions between Freelancers and Enterprises, Article 5, Paragraph 1, Item 4)^[117] ^[118].

Furthermore, even where a transaction does not fall within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if it is subject to the SME Transactions Act, a production company's unjust setting of remuneration at a level significantly lower than the ordinarily paid consideration, in light of factors such as rising prices, constitutes unjustly low pricing under Article 5, Paragraph 1, Item 5 of the SME Transactions Act.

(B) Unilateral determination of consideration without consultation

As mentioned above in (2) A(B), responses to the questionnaire survey of freelancers suggest that production companies are open to negotiations, while the results of interviews with production companies and freelancers suggest that even if there is a forum for negotiations, there are cases in which the discussions are insufficient. In addition, against the backdrop of limited remuneration other than production commission fees received by production companies, remuneration other than consideration for services, such as success-based remuneration, appears to be paid to freelancers only in limited occupational categories.

Although such circumstances do not in themselves constitute a violation of the SME Transactions Act, following its enforcement, as prices continue to rise, where a production company unilaterally determines remuneration by refusing to engage in price negotiations, including discussions of success-based remuneration, or by failing to provide necessary explanations despite a freelance creator's request for consultation, this constitutes a prohibited act of unilateral determination of consideration without engaging in consultation under Article 5, Paragraph 2, Item 4 of the SME Transactions Act.

(3) Orders with unreasonably short deadlines

A Actual conditions

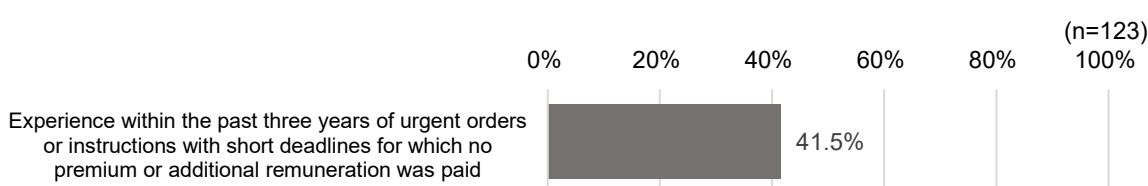
¹¹⁷When the term of outsourcing is one month or longer (Article 5, Paragraph 1 of the Act on the Improvement of Transactions between Freelancers and Enterprises and Article 1 of its Enforcement Order). The same applies below with respect to prohibited acts prescribed under the Act on the Improvement of Transactions between Freelancers and Enterprises.

¹¹⁸If a production company, without explicitly discussing during price negotiations the need to reflect cost increases such as inflation in transaction prices, maintains remuneration at prior levels and thereby unjustly sets remuneration at a level significantly lower than the ordinarily paid consideration, this may constitute unjustly low pricing (Japan Fair Trade Commission, "Guidelines Concerning the Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators" (May 31, 2024), Part II, 2(2)E(c)).

In a survey of freelancers, as shown in Figure3-60, approximately 40% responded that, during the past three years, they had experienced “urgent orders or instructions with short deadlines for which no premium or additional remuneration was paid.”

In interviews, freelancers responded that they had been instructed by production companies to complete the work quickly, and that work that would normally take a month and a half was completed in three weeks, but that rush fees had not been paid.

Figure3-60 Experience within the past three fiscal years of urgent orders or instructions with short deadlines for which no premium or additional remuneration was paid.¹¹⁹



*Freelancers were asked whether they had experienced such conduct at least once during the past three years
Source: Created based on survey results

[Interview excerpt (39)]

<Freelancers>

◆ **Examples where a short delivery time was requested when placing an order**

- The production company instructed us to complete the finishing work quickly, and we ended up completing work in just three weeks that would normally take a month and a half. In that case, no rush fee was paid, but rather a three-week retention fee (remuneration), which was not commensurate with the amount of work. (Recording)

B The Act on the Improvement of Transactions between Freelancers and Enterprises, perspective under the SME Transactions Act

As noted above in (a), there appear to be a certain number of cases in which no premium is paid to freelancers despite the placement of short-deadline orders.

Where a transaction falls within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if a production company places an order with a shorter-than-usual deadline and unjustly sets remuneration at a level significantly below the ordinarily paid consideration without taking into account the increased costs incurred by the freelance creator, this constitutes unjustly low pricing under Article 5, Paragraph 1, Item 4 of that Act.

Even where a transaction does not fall within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if it is subject to the SME Transactions Act, a production company’s unjust setting of a price significantly below the ordinarily paid

¹¹⁹This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

consideration in connection with a short-deadline order constitutes a problem under the SME Transactions Act (unjustly low pricing) (The SME Transactions Act, Article 5, Paragraph 1, Item 5), and where a production company unilaterally determines the price (remuneration) by refusing to engage in price consultation or by failing to provide necessary explanations despite a freelancer’s request for consultation regarding a short-deadline order, this constitutes a problem under the SME Transactions Act (unilateral determination of consideration without engaging in consultation) (The SME Transactions Act, Article 5, Paragraph 2, Item 4).

2 Performance of transactions

(1) Order cancellation

A Actual conditions

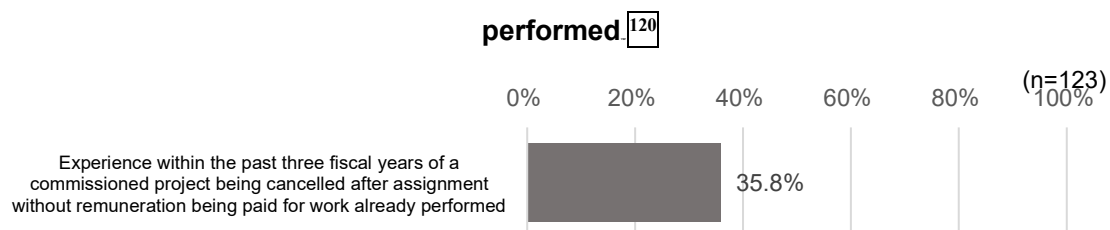
In the questionnaire survey of freelancers, as shown in Figure3-61, approximately 40% responded that, during the past three years, “a commissioned project was cancelled after assignment and no remuneration was paid for work already performed.”

In interviews, production companies responded that it is customary to compensate freelancers for around 60% of the contract amount when filming is interrupted or canceled, and that they compensate the full amount when orders are canceled at the last minute. Freelancers also responded that, "when filming was canceled, I was compensated for two months of the filming period," indicating that production companies compensate freelancers to a certain extent when orders are canceled.

On the other hand, freelancers responded that "when a project falls through, there are cases where the invoice is not fully paid." Others responded that "even if film production is canceled at the last minute, some production companies may not provide compensation, so if that happens, you will not be able to find work right away and will end up unpaid," and that compensation may or may not be provided depending on the client of the prime production company.

Trade associations responded that "even if an order is canceled, most companies probably compensate freelancers 100% of their wages for the current month and 50% for the following month."

Figure3-61 Experience within the past three fiscal years of a commissioned project being cancelled after assignment without remuneration being paid for work already performed.¹²⁰



¹²⁰This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

*Freelancers were asked whether they had experienced such conduct at least once during the past three years

Source: Created based on survey results

[Interview excerpt (40)]

<Production company>

- When film production is suspended or canceled, it is customary for production companies to compensate freelancers with approximately 60% of the contract amount, as the Labor Standards Act stipulates that so-called “temporary layoff allowance” must be at least 60% of average wages. Since freelancers would complain if we only paid 60%, we pay our staff around 80% as compensation. Furthermore, we fully compensate for any last-minute cancellations (order cancellations). As such, when a project is canceled or postponed, the production company needs to compensate remuneration for clients and freelancers to some extent, and sometimes the production committee that decided to cancel or postpone the project does cover these costs, but sometimes they do not.
- The contract template in the Japan Motion Picture Production Standards Association Guidelines does not state a cancellation policy, but we have decided to include this policy in the contracts we enter into with freelancers. We have informed the production committee that we have entered into such contracts with freelancers, but the production committee absolutely refuses to allow us to include a cancellation policy in the contract between us and them.
- In cases where a cancellation occurs three to four months in advance, the freelancer who booked the schedule may say that it's okay because they have other projects waiting for the cancellation, but many freelancers will likely find themselves going through an extended period of unpaid work due to sudden cancellations. It is said that the monthly salary of a freelancer is 1.5 to 2 times that of an employee, and some believe that this includes periods when there is no work and cancellation fees.

<Freelancers>

◆Answers stating that compensation was provided after the order was canceled

- In my 30-year career as a recording engineer, there has only been one project where I received compensation when a job was canceled. Since the director who was going to be using the film had already asked other staff members to help out, the main staff members were paid a month's compensation. I'm not sure whether it was the production company or the director who did this, but I was very surprised. (Recording)
- In one film production, the in-film music had not been completed, revealing a lack of preparation. Filming was only operational for just under a week, and then halted. However, compensation was given for two months of filming time. The subcontracted production company requested compensation for the staff from the prime production company, and compensation was agreed upon. There was no written compensation document, but I requested an invoice for the equivalent of two months' salary, and they paid me. The editor, assistant editor, and scripter were scheduled to work for another month and a half after filming for the editing period, so we negotiated for that as well, and were able to receive the equivalent of an

additional month's salary. (Scripter)

- I understand that there is an industry practice of providing compensation for order cancellations. I believe compensation may be paid if they are released when there is less than a month left until filming begins. There is no uniform standard, but it is decided comprehensively based on the relationship up to that point. (Line producer)
- If the production company is well-established in terms of scale and funding, they should be able to pay the cancellation fee. (Editor)

◆Answers stating that remuneration was not paid for work already performed following cancellation of an order

- When a project falls through, I try to bill for the costs incurred up to that point in creating the scenario, but there are cases where the amount billed is not fully paid. I ask for payment for the work I do, but depending on the production company, they may only be paid around 10% of the original screenplay fee. (Screenwriter)

◆Answers regarding experience with order cancellations

- Due to the sudden cancellation of production, there was a gap in my schedule for two months. I wanted to fill the gap with work, but it is generally difficult to fill a sudden gap, and at that time I was unable to fit in any other work. While I'd like to demand cancellation fees or penalties, the producer at the production company that commissioned the project is an old acquaintance, and I know that the production company is also in a difficult situation due to the cancellation, so it's actually quite difficult to demand them. (Editor)
- In my experience, if you are asked to do a job but it is postponed or canceled just before filming, the video streaming company will compensate you if they are also a client (of the prime production company). For example, in one project, production was postponed for three months from the original schedule, but they compensated me for those three months (even though I wasn't working). On the other hand, in the case of the production committee model, compensation has never been provided. If a freelancer suddenly loses work, there is a high chance that they will not be able to find work during that period, resulting in a period of unpaid work. If they are going to make people clear their schedules, they should compensate them if they cancel. (Recording)
- With the production committee model, film production can be canceled or postponed just before filming. Some staff members, such as scripters, find it difficult to find new work immediately, so the production company may compensate them for a certain period of time, although not the entire planned period. However, even if film production is canceled at the last minute, some production companies may not provide compensation, so if that happens, you will not be able to find work right away and will end up unpaid.
- It's common for work to be cancelled at the last minute. Cancellations usually occur about a month in advance. If you don't receive an offer two months in advance, you can't take on any work during that period, and you can't double-book because

you're assuming the job will go ahead. However, I don't think I'll get paid even if I ask for compensation, and I can't take on multiple jobs just for insurance purposes, so it would only increase the period of time I'm not receiving remuneration.
(Recording)

<Trade associations>

- Sometimes, the freelancer will cancel at the last minute, such as two weeks before production is due to begin, because they have found a better-paying job. Such a breach of trust would have been unthinkable in the past.
- Even if an order is canceled, most companies probably compensate freelancers 100% of their wages for the current month and 50% for the following month. While engineers may not have immediate job prospects, assistants (especially third assistants) often find new jobs quickly due to the shortage of personnel. In many cases, it is possible to double up by receiving compensation and receiving remuneration for the next project, which I think is quite fortunate, but the reality is that there are still people who complain that the compensation period is too short and that they should be compensated for three months. Given the current labor shortage, production companies are also taking measures to improve their reputation.
- It is a problem when production companies and film companies tentatively reserve schedules and have them left open, only to have them cancelled without compensation. Often, there's no notification of the project being cancelled, and the freelancer has to contact the company themselves. I think this happens about half the time.

B The Act on the Improvement of Transactions between Freelancers and Enterprises, perspective under the SME Transactions Act

As noted above in (a), responses to the questionnaire and interview surveys of freelancers indicate that, in some transactions, orders were cancelled and no remuneration was paid for work already performed or for periods that could not be filled with other projects.

Where a transaction falls within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if a production company cancels an order without grounds attributable to the freelance creator and, without bearing the costs incurred for work performed, thereby unjustly harms the freelancer's interests, this constitutes an unjust modification of the content of benefit payments under Article 5, Paragraph 2, Item 2 of that Act.

Furthermore, even where a transaction does not fall within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if it is subject to the SME Transactions Act, cancellation of an order without grounds attributable to the freelance creator, coupled with failure to bear the costs incurred for work performed and resulting in unjust harm

to the freelancer's interests,¹²¹ constitutes an unjust modification of the content of benefit payments under Article 5, Paragraph 2, Item 3 of the SME Transactions Act.

(2) Additional Payment of Remuneration

A Actual conditions

As noted in Section 1.2(2)(a)(a) and Section 2.2(2)(a)(a) above, in film production, additional costs frequently arise in both transactions between production committees and prime production companies and transactions between prime production companies and subcontracted production companies. The reasons cited for additional costs include extensions of the production period, additional work beyond the originally agreed scope, and retakes; in such circumstances, it may be necessary to extend the outsourcing period to freelancers or to request additional work. A questionnaire and interview survey of freelancers regarding payment practices in cases involving extensions or postponements of outsourcing periods and requests for additional work yielded the following results:

(A) Postponement or extension of period

In the questionnaire survey of freelancers, as shown in Figure3-62, approximately 50% responded that, during the past three years, "the work period was extended through no fault of their own, and no additional remuneration was paid."

In interviews, production companies responded that, "basically, our contracts with staff are on a monthly basis, so we will have to cover the staff costs for the length of the postponement."

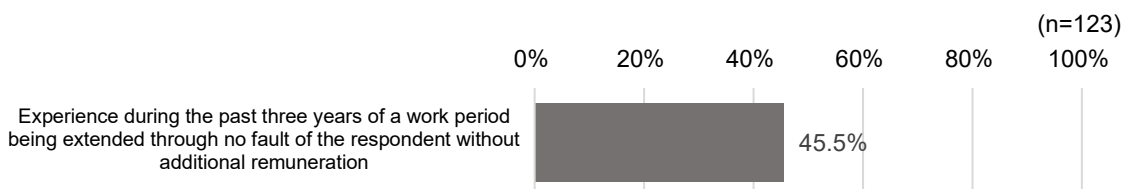
Freelancers responded that some received additional compensation, such as "regardless of the reason for the extension, if the contract is extended beyond the original period, additional payment will be made," and others did not receive additional compensation, such as "even though work was performed (after the initial contract period), no payment was made."

¹²¹ As stated in Section 1-2(1)(i) above, it should be noted that whether the interests of the freelancer have been unjustly harmed is determined by comprehensively considering such factors as the losses incurred by the freelancer as a result of bearing costs due to changes to the content of the performance or reworking, and the amount of costs borne in response by the production company, and assessing whether the freelancer can be said to have suffered a disadvantage. Where the production company bears the costs and losses incurred by the freelancer as a result of changes or retakes and it is recognized that the freelancer's interests have not been unjustly harmed, no violation arises.

From a dispute-prevention perspective, production companies and freelancers may consider specifying in advance, for example through a cancellation policy, whether payment will be made and the amount payable to the freelancer in the event that a service contract is cancelled. In this context, it should be noted that, depending on whether such payment is made and the amount specified, the arrangement may constitute unjustly low pricing or an unjust modification of the content of benefit payments in violation of the Act on the Improvement of Transactions between Freelancers and Enterprises.

Furthermore, in cases involving manufacturing outsourcing or the creation of information deliverables, even if a cancellation policy as described above has been established in advance, where the goods or information deliverables have already been completed, the production company must accept the deliverables and pay remuneration by the predetermined due date unless there are grounds attributable to the freelance creator.

Figure3-62 Experience within the past three fiscal years of a work period being extended through no fault of the respondent without additional remuneration.¹²²



*Freelancers were asked whether they had experienced such conduct at least once during the past three years
Source: Created based on survey results

[Interview excerpt (41)]

<Production company>

- Basically, our contracts with staff are on a monthly basis, so we would have to cover the staff expenses for the length of the postponement. However, even though the postponement was three months, the production committee only covered one month's expenses.

<Freelancers>

◆Cases where additional remuneration was paid in connection with an extension of the production period

- If retakes (reshoots) occur outside the contract period, or if the shooting period is extended, additional compensation will be paid. There are various reasons why filming may be extended, including an actor's illness, weather, or the director's filming policy. Freelancers will be paid additionally if their contract is extended beyond the original term, regardless of the reason for the extension. (Lighting)
- In one production for a foreign video streaming company, the lead actor was injured and filming was halted for three months. Since many of the staff had already been hired for other jobs, when filming resumed, half of the staff, including the director and cameraman, had been replaced. Some staff members continued their contracts during the filming hiatus with a certain reduction in pay. I think it's likely that the foreign video streaming company increased its capital. If this were a production committee, they would not have responded in this way. (Assistant director)
- If the shooting period is extended and additional costs are incurred, negotiations can be carried out and the costs will generally be paid. In the case of short shoots such as one day, payment may not be made, but this is acceptable. On the other hand, there is no additional remuneration for shooting more hours per day than planned. (Cameraman)

◆Cases of non-payment of additional remuneration due to postponement or

¹²²This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

extension of the production period

- The contract period and remuneration are stated in the contract document. Even if the actual working period is longer than the contracted period, there are many cases where additional remuneration is not paid. (Recording)
- It is common for filming to take longer than originally planned due to weather conditions, but remuneration is not renegotiated just because the period is extended. In particular, on a film production site, people live together in a group for long periods of time, which creates a sense of unity, making it psychologically difficult for an individual to negotiate. (Cameraman)
- Filming wrapped up at the end of April, but even though the remaining work continued into May, the production company said that the contract period had already ended, and no remuneration was paid from that point onwards. Although scripters are also responsible for finishing up the filming after it is shot and it is common for them to have to do a variety of tasks such as cleaning up and checking lines for dubbing, the producer told them that their contract was only valid until April, and they were not paid even though they continued working in May. (Scripter)
- During the editing process, it was discovered that there were missing scenes, which led to additional filming and subsequent editing work (which also extended the editing period). However, the additional work was not paid, as it was included in the initial remuneration offer. (Editor)

◆Other

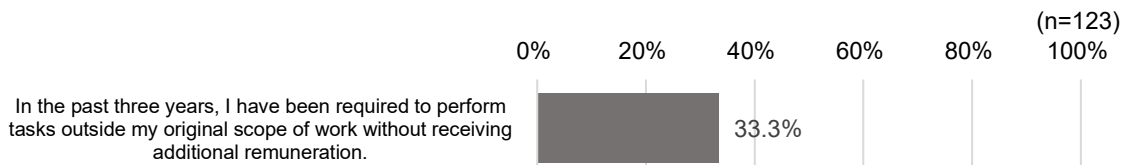
- Production periods often take longer than planned. In most cases, it is due to the actors' circumstances (schedules or scandals), and I think the production company is also a victim in a sense. (Scripter)

(B) Addition of tasks that differ from the original scope of work

In a survey of freelancers, as shown in Figure3-63, approximately 30% responded that, during the past three years, they had been "required to perform tasks different from the original scope of work without receiving additional remuneration."

In interviews, freelancers responded that they had been instructed to perform additional tasks that should have been handled by other specialized staff, without remuneration.

Figure3-63 Experience within the past three fiscal years of being required to perform work outside the scope of work without additional remuneration.¹²³



*Freelancers were asked whether they had experienced such conduct at least once during the past three years
Source: Created based on survey results

[Interview excerpt (42)]

<Freelancers>

◆Cases where tasks outside the original scope of work were performed but no additional remuneration was paid

- Scripters may also create a "final script" at the end of production. Creating a final script takes a considerable amount of time, as it involves comparing the footage with the script and adding production-related information, such as incorporating the cast's ad-libs into the dialogue. The finished script is created after dubbing, so it is generally not created during the scripter's contract period. Therefore, scripters may receive instructions to perform additional work that was not included in the original contract. Some production companies will pay additional remuneration for work outside of the contract period, but in most cases they will not pay unless the freelancer requests it. Depending on the production company, even if you request additional remuneration, they may say, "It is included in your previous remuneration," and make you continue working for free, even though your contract has already expired. (Scripter)
- After signing the contract, just before filming was to begin, the director asked me to take on additional tasks that were not included in the contract (tasks that would normally be assigned to other specialized staff), and although I performed tasks outside the scope of my original work, I was not paid any additional remuneration. I was happy to be appointed by the director, but it simply meant more work, so I negotiated with the production company's producer to add some remuneration from the budget originally set aside for the specialist staff, even if it wasn't the full amount. However, my request was not accepted. (Props)
- I am sometimes asked to help with tasks that are outside the scope of my duties. No additional remuneration will be paid for work that is outside of the scope of my duties. (Recording)
- After completing one's own work, a production company may request that a freelancer create a list of items that will be required for subsequent work, but many production companies will try to avoid paying additional fees when requesting such additional work from a freelancer (the other party will never offer additional fees),

¹²³This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

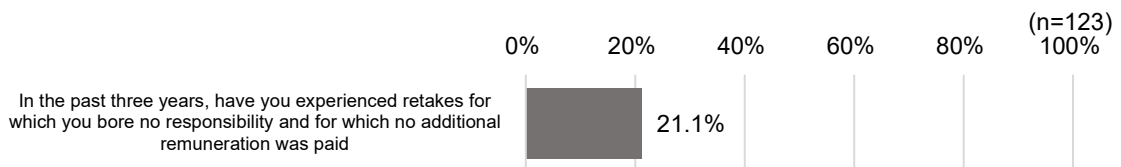
so if the freelancer does not say anything, the work will end up being unpaid. People who cannot assert themselves and young people are forced to work for free. If a freelancer requests additional remuneration, they are often removed from the work.
(Props)

(C) Retakes

In a survey of freelancers, as shown in Figure3-64, approximately 20% responded that, during the past three years, they had experienced “retakes for which they bore no responsibility¹²⁴ and for which no additional remuneration was paid.”

In interviews, freelancers responded that they expect a certain amount of retakes depending on the job, saying, "Two to three retakes are already factored in when the request is received." However, some stated that even after delivery and payment, they were sometimes asked to do retakes without receiving any additional remuneration, and that due to their relationship with the production company, it was difficult to negotiate additional remuneration when corrections were requested.

Figure3-64 Experience within the past three fiscal years of being required to do a retake for which the respondent bore no responsibility, without additional remuneration.¹²⁵



*Freelancers were asked whether they had experienced such conduct at least once during the past three years
Source: Created based on survey results

[Interview excerpt (43)]

<Freelancers>

- Since the price is per piece, if the director or producer requests a redo, the work period will be extended. When writing a screenplay, I understand that the first draft does not become the final draft, so I already plan for two or three retakes when I receive the request. However, the fee remains the same no matter how many retakes there are, so the work period just increases and the fee becomes relatively low.
(Screenwriter)
- After the contract ended, I was asked to do additional work and was tied up for a day, but I wasn't given the opportunity to negotiate with the producer and therefore

¹²⁴This includes being required to do a retake after works had been approved as delivered, being subjected to excessive revisions due to unclear instructions, and being required to redo work inconsistent with the original instructions.

¹²⁵This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

didn't receive any remuneration. The contract does not mention any additional work. Even if they did say something, the production company's argument would be that they "don't have the money," and they wouldn't listen. (Recording)

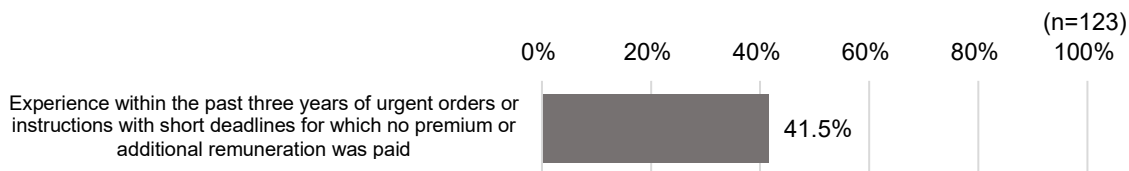
- Once a film is completed, a preview screening is held for the staff to check the footage, but at this stage (when the film has been delivered and the work has been completed), the director has sometimes instructed us to do a finishing retake. It was a retake that was not my fault as I was in charge of finishing. The production company rented a dubbing room for the finishing work, and although they paid for the dubbing room for the retakes, I was not paid any additional remuneration for the time I worked for the retakes. (Recording)
- Even after the editing work is completed and the other party has given their approval and paid the fee, there are times when the editor is asked to make some corrections, but the fee is not paid for those corrections. There is a long gap between releases, and depending on the film and the director, some films may have to be revised multiple times. (Editor)
- If the binding period is extended due to re-editing due to reshoots, additional remuneration may be paid, but the criteria for when additional remuneration can and cannot be paid are very vague, and much depends on negotiation. In terms of relationships with production companies, if they ask for retakes without remuneration, it is difficult to negotiate for additional remuneration. (Editor)
- In one case, an actor was discovered humming a song that had copyright issues, and the actor was subsequently asked to retake the final shot. The producer at the production company promised to provide remuneration for the additional work, but in the end they never did. (Recording)

(D) Other changes to the scope of work

In a survey of freelancers, approximately 40% responded that, during the past three years, they had experienced "urgent orders or instructions with short deadlines for which no premium or additional remuneration was paid."

In interviews, freelancers responded that "no premium is paid even if the work period is shortened."

(Reproduced Figure3-60) Experience within the past three years of urgent orders or instructions with short delivery deadlines for which no premium or additional remuneration was paid.¹²⁶



*Freelancers were asked whether they had experienced such conduct at least once during the past three years
Source: Created based on survey results

[Interview excerpt (44)]

<Freelancers>

◆ Examples where a faster delivery time was requested after the order was placed

- Due to budget constraints, production companies sometimes unilaterally shorten the contract end dates for individual staff members. In such cases, the originally scheduled contract period will be shortened, but remuneration will only be paid for the period of work. For example, for the cleaning work that was initially reserved for two weeks, the production company instructed, "We don't have enough budget to pay the staff, so please complete the cleaning work in one week," and in fact, they were only paid for one week (Props).

◆ Examples where the work period was shortened after the order was placed and rush work was required

- Since sound is the last task in film production, delays in the preliminary stages such as filming and editing can sometimes push back the start of sound work by a month. As a result, there is often hesitation in scheduling other work around the set time. Because the filming schedule was pushed back, work on the sound design began later than originally planned, and with the allotted time reduced, I had to prioritize it over other tasks to finish it on time. Although I expected to receive additional remuneration, akin to a rush fee, this was not taken into account. (Sound)
- After editing, there is sound and other work to be done behind the scenes, so the production company often has us work quickly. Even if there is a delay in filming and it is not your fault, you have to force yourself to finish the work, but there is no extra pay. It's an industry where not only the production company but also other staff members don't question it, and there's a prevailing mentality that it's only natural to get things done without paying extra for rush orders or anything like that. When I tried to talk about not being able to finish the work on time, I was just told, "That's just how it is," or "Everyone's having a hard time," and that was the end of it. (Editor)

¹²⁶This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

B The Act on the Improvement of Transactions between Freelancers and Enterprises, perspective under the SME Transactions Act

As noted above in A, the questionnaire and interview surveys of freelancers indicate that, although not a majority, some respondents experienced extensions of the production period, additions of work outside the original scope, retakes, or other changes not attributable to the freelancer, without any additional remuneration being paid.

Where a transaction falls within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if a production company, without any reason attributable to the freelancer, extends the production period, requires work outside the original contract, or imposes retakes, and fails to pay additional remuneration despite additional work being incurred, thereby unjustly harming the freelancer's interests, this constitutes a violation under the Act, namely an unjust modification of the content of benefit payments or an unfair retake (Article 5, Paragraph 2, Item 2 of the Act on the Improvement of Transactions between Freelancers and Enterprises^[127]).

Even where the transaction does not fall within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if it is subject to the SME Transactions Act, similar conduct, namely extending the production period, requiring work outside the original contract, or imposing retakes without fault on the part of the freelancer and failing to pay additional remuneration despite additional work being incurred, thereby unjustly harming the freelancer's interests, constitutes a violation under the SME Transactions Act, specifically an unjust modification of the content of benefit payments or an unfair retake (Article 5, Paragraph 2, Item 3 of the SME Transactions Act^[128]).

With respect to retakes, in commissions for the creation of informational deliverables such as films, whether the deliverables satisfy contractual requirements and meet acceptance standards is partly assessed based on the value judgments of the production company and, ultimately, the production committee, and in some cases it may be impossible to specify inspection standards clearly in advance in documents such as purchase orders. In such circumstances, where standards are ambiguous and communication is insufficient, differences in understanding of the required work may arise, leading to deliverables that deviate from expected quality levels, and responsibility may therefore be difficult to determine. In the interview survey as well, freelancers stated that the standards for determining whether additional remuneration would be paid are ambiguous and that negotiations are difficult.

In such cases, regardless of whether the deliverables have been accepted, a production company must not unilaterally determine the allocation of costs when requiring retakes or other

¹²⁷In such circumstances, where additional work arises from an extension of the production period without fault on the part of the freelancer and the production company fails to pay additional remuneration, the conduct may also constitute a reduction in remuneration (Article 5, Paragraph 1, Item 2 of the Act on the Improvement of Transactions between Freelancers and Enterprises).

¹²⁸In such cases, where additional work arises from an extension of the production period without fault on the part of the freelancer and the production company fails to pay additional remuneration, the conduct may also constitute a reduction in payment (Article 5, Paragraph 1, Item 3 of the SME Transactions Act).

additional work on the grounds that the deliverables differ from the originally commissioned content, even if the relevant standards could not be clearly specified in advance; instead, it must determine a reasonable allocation of costs following sufficient consultation with the freelancer, taking into account the circumstances that led to the retakes or additional work.

(3) Deductions, late payment, and non-payment

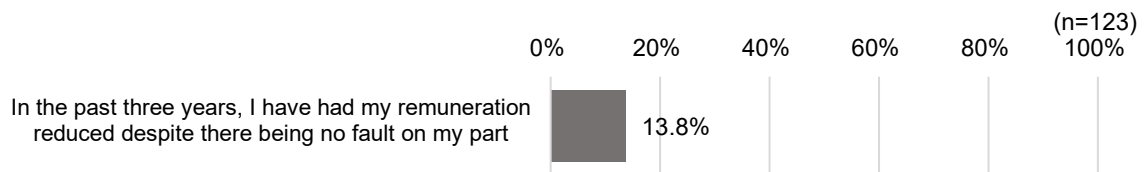
A Actual conditions

(A) Reduction of payment

In a survey of freelancers, as shown in Figure3-65, just over 10% responded that, during the past three years, they had experienced "a reduction in payment despite bearing no responsibility."

In interviews, freelancers responded that, "sometimes the fee is reduced from what was initially offered because the budget is insufficient," and "bank transfer fees are deducted without permission."

Figure3-65 Experience within the past three years of payment reductions despite no fault on the part of the subcontracted production company.¹²⁹



*Freelancers were asked whether they had experienced such conduct at least once during the past three years
Source: Created based on survey results

[Interview excerpt (45)]

<Freelancers>

- I once had my compensation reduced by about 10% when I submitted an invoice after the contract period had expired. The subcontracted production company said, "We'll pay you this time, but with your skill level we won't pay you next time," and my fee was reduced by several tens of thousands of yen (Props).
- The production company may reduce the remuneration offered during the finishing period from the initial amount due to a lack of budget. Since finishing is the final step, if costs increase due to the filming period, this can cause damage. (Recording)
- Although I had expressed my desired remuneration for myself and my assistant before filming began, filming began without the remuneration being decided. I was

¹²⁹This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.

then offered a fee that was significantly lower than the market rate, but I couldn't immediately move on to another project, so I reluctantly agreed. I negotiated and they agreed to at least bring the assistant's remuneration closer to the market rate, but then they said, "You asked us to increase the assistant's salary, so we increased it. In return, we'll reduce your salary." My remuneration, which I had already agreed to, was unilaterally reduced by about 150,000 yen per month. (Cameraman)

- There are also cases where I am required to pay bank transfer fees even though I was not told in advance. (Cameraman)
- When payment is made, the amount is often reduced, such as when bank transfer fees are automatically deducted, which differs from the invoice I submitted. (Screenwriter)

(B) Late or non-payment

In a survey of freelancers, as shown in Figure3-66, approximately 20% responded that during the past three years they had experienced "late payment (payment of remuneration made more than 60 days after delivery or beyond the contractual due date)."

In interviews, freelancers responded regarding delayed payments that, "it's taken as long as six months for me to get paid."

Freelancers responded regarding non-payments that "many production companies are struggling to survive, so they may not pay their bills."

Figure3-66 Experience within the past three fiscal years of delayed payment¹³⁰

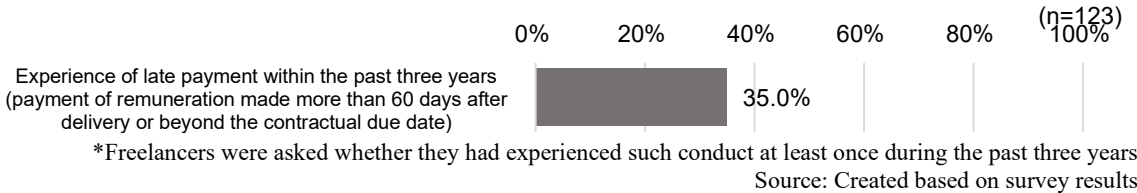
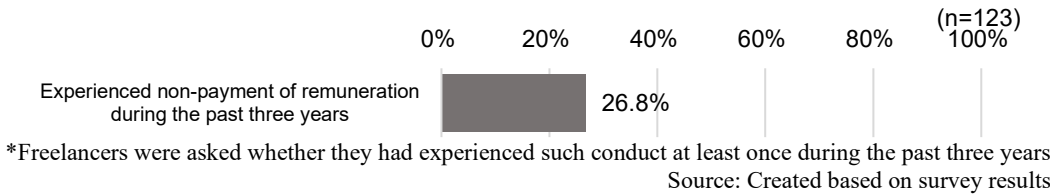


Figure3-67 Experience within the past three fiscal years of non-payment of remuneration¹³¹



¹³⁰This figure represents the percentage of freelancers who reported having experienced such conduct during the past three years and does not indicate the incidence rate of such conduct relative to the total number of transactions.
¹³¹Same as above.

[Interview excerpt (46)]

◆Delayed payment

<Freelancers>

- During the production of one project, all staff members were not paid. At that time, all the staff members went on strike and refused to work until they were paid, so although it was delayed, they were eventually paid. (Recording)
- I have experienced late payments several times. However, after I checked with them, they paid immediately, so I didn't suffer any losses such as non-payment. (Editor)
- Delays in payment of remuneration are not uncommon. In such cases, the freelancer must proactively follow up, as the other party will generally not contact them unless they initiate the process. Therefore, it is necessary to keep in contact until payment is made. I myself once had to repeatedly request remuneration after not receiving it, and it took six months for it to be paid. There are no late fees or penalties charged for late payments. (Screenwriter)

◆Non-payment

<Freelancers>

- I have experienced non-payment of remuneration. The production company continued to withhold payments, and eventually the company went bankrupt, leaving me unpaid. Other staff members working on the same film were not paid either. (Director)
- Sometimes they will pay you half of your remuneration at once and ask you to wait for the other half. I think the main reason for this is that many production companies are struggling financially and are operating on a shoestring. There may be some companies that would like to avoid paying remuneration, but the reality is that some cannot pay even if they want to. (Screenwriter)
- Many production companies are struggling to make ends meet, so even if they intend to pay, they may not be able to, and may say, "we'll pay the next time we get money," resulting in delayed or defaulted payments. (Screenwriter)

B The Act on the Improvement of Transactions between Freelancers and Enterprises, perspective under the SME Transactions Act

(A) Reduction of payment

The questionnaire and interview surveys of freelancers indicate that, although not widespread, some freelancers were paid less than the amount originally agreed after delivery, or had bank transfer fees deducted from their remuneration.

Where a transaction falls within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, a production company's reduction of the remuneration

agreed at the time of contracting, absent any reason attributable to the freelancer, constitutes a violation of that Act, namely an unlawful reduction of remuneration (Article 5, Paragraph 1, Item 2 of the Act on the Improvement of Transactions between Freelancers and Enterprises).

Even where the transaction does not fall within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if it is subject to the SME Transactions Act, a reduction of the agreed price, that is, remuneration, without fault on the part of the freelancer constitutes a violation of the SME Transactions Act, namely an unlawful reduction of payment (Article 5, Paragraph 1, Item 3 of the SME Transactions Act).

(B) Late or non-payment

The questionnaire and interview surveys of freelancers indicate that some freelancers experienced payment after the contractual due date.

Where a transaction falls within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, regardless of whether the production company conducts an inspection of the deliverables, failure to pay remuneration by the due date set within the shortest possible period not exceeding 60 days from the date of receipt of the deliverables constitutes a violation of the Act, namely a breach of the obligation to pay remuneration by the due date (Article 4, Paragraph 5 of the Act on the Improvement of Transactions between Freelancers and Enterprises).

Even where the transaction does not fall within the scope of the Act on the Improvement of Transactions between Freelancers and Enterprises, if it is subject to the SME Transactions Act, failure to pay remuneration after the due date constitutes a violation of the SME Transactions Act, namely late payment (Article 5, Paragraph 1 and Paragraph 2 of the SME Transactions Act).

Chapter 4 Response from the Japan Fair Trade Commission

The survey identified conduct that may raise issues under the SME Transactions Act or the Anti-Monopoly Act in transactions between production committees and prime production companies, and between prime production companies and subcontracted production companies, in relation to the disclosure of transaction terms and the setting of transaction consideration, as well as conduct that may raise issues under the Act on the Improvement of Transactions between Freelancers and Enterprises or the SME Transactions Act in transactions between production companies and freelancers.

To prevent conduct that may raise issues under the Anti-Monopoly Act, the SME Transactions Act, and the Act on the Improvement of Transactions between Freelancers and Enterprises (hereinafter collectively referred to as the “Anti-Monopoly Act, etc.”), the Japan Fair Trade Commission has published the results of this survey and disseminated the contents of this report to constituent entrepreneurs of production committees, production companies, and relevant trade associations representing freelancers.

The Japan Fair Trade Commission will continue to monitor the progress of initiatives undertaken by relevant businesses to address the issues identified in this report, in coordination with the relevant ministries and agencies and through ongoing communication. In addition, the Japan Fair Trade Commission will closely scrutinize conduct at each stage of transactions, from ordering parties such as production committees through to freelancers, including the conduct identified in this report as potentially problematic under the Anti-Monopoly Act, etc., and will respond strictly and appropriately to any violations of those laws.

Going forward, taking into account the Content Industry Revitalization Strategy set forth in the “Grand Design and Action Plan for a New Form of Capitalism, 2025 Revised Edition” (approved by Cabinet decision on June 13, 2025), the Japan Fair Trade Commission intends to formulate and publish guidelines setting out specific interpretations under the Anti-Monopoly Act, etc. and competition policy based on the contents of this report.