

Client Alert

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Japan: Recent JFTC case clarifying the scope of the Proper Transactions Act JFTC Proper Transactions Act enforcement update

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In brief

Significant revisions to Act on Proper Transactions for Small and Medium-Sized Contractors (Law No. 120 of 1956, amended in 2025 (“Proper Transactions Act”)) took effect on 1 January 2026. These changes are now being actively enforced by the Japan Fair Trade Commission (JFTC). On 30 March 2026, the JFTC issued an official recommendation (“Recommendation”) to a Japanese auto parts company (JA) stating that requiring a contract manufacturer to store quality-related documentation and product samples free of charge constitutes a “request for the provision of unfair economic benefits,” even where such storage is clearly contractually stipulated in advance. The JFTC further stated that imposing such a requirement constitutes a violation of the Subcontracting Act — the predecessor to the Proper Transactions Act.

It is common practice for manufacturers to retain quality-related documentation (e.g., manufacturing and inspection records) as well as product samples for a certain period. Purchasers also generally contractually require their contract manufacturers to store quality-related documentation and product samples.

The Recommendation casts a spotlight on these customary practices and is expected to have a wide-ranging impact on business operations. In this case, quality-related records and other materials were stored pursuant to contracts and other documents executed between the parties. The Recommendation represents an important precedent by clarifying that even storage pursuant to a contract may constitute a violation of the Proper Transactions Act.

Due to the fact that the manufacturing in this case was entrusted by JA prior to the enforcement of the Proper Transactions Act, the JFTC found JA’s conduct to violate the Subcontracting Act — the Proper Transactions Act’s predecessor. However, in its press release regarding the Recommendation, the JFTC pointed out that the Proper Transactions Act applies to the entrustment of business after its entry into force. Similar conduct can therefore be expected to trigger investigations under the Proper Transactions Act in the future.

Overview of the Recommendation

In the Recommendation, the JFTC found that JA had made a “request for the provision of unfair economic benefits” by requiring its supplier to engage in the following free of charge and for the purchaser’s own benefit:





1. Manufacture of a prescribed number of items identical and in addition to the entrusted production items (“product samples”) for each production lot of the subject parts
2. Storage of said product samples for periods of six months or one year
3. Storage of records relating to manufacture of the subject parts, inspection records, records relating to quality defects and other quality-related records (“quality-related documentation”), whether in hard copy or electronic form, for prescribed periods (e.g., 20 years)
4. Conversion of hard copies of quality-related documentation into electronic form and storage thereof on electronic media

The Recommendation further states that the purchaser is obligated to pay the cost of disposal of product samples or quality-related documentation upon expiration of the storage period.

Conduct prohibited under the Proper Transactions Act

The Proper Transactions Act specifically prohibits the following conduct:

1. Refusal to accept delivery
2. Delayed payment of compensation for manufacturing of ordered products and/or provision of ordered services
3. Reduction of compensation for manufacturing of the ordered products and/or provision of ordered services
4. Return of goods
5. Unjust low pricing
6. Forcing the purchase of products or raw materials or use of services designated by purchaser
7. Retaliatory measures against a small or medium-sized subcontractor for reporting purchaser’s misconduct to the regulatory authorities
8. Settling payment for raw materials supplied by the purchaser prior to settling payment for subcontractor’s work
9. Requesting the provision of unfair economic benefits
10. Unjustly changing transaction terms or the requirements for performance or unjustly demanding that performance be redone
11. Unilaterally determining consideration without responding to requests for consultation

The scope of each type of prohibited conduct is not always clear. This is especially true with regard to the interpretation of what constitutes an “unfair economic benefit.” The Recommendation clarifies the interpretation of some of these terms.



Storage of quality-related documentation and product samples

While the degree to which quality-related documentation and product samples are retained varies by industry, by ensuring traceability, etc., such storage may be considered a natural extension of the core business of contract manufacturing.

In certain industries (e.g., pharmaceuticals), manufacturers are legally obligated under applicable laws and regulations to retain quality-related documentation and product samples. In such cases, where a purchaser contractually requires a contract manufacturer to retain such materials within the scope of the manufacturer's statutory obligations, the subcontractor would not be incurring any additional costs beyond those necessary to fulfill its obligations. Accordingly, it may be possible for the purchaser to refrain from paying separate consideration for storage in addition to the consideration for the core manufacturing services in these instances.

On the other hand, where no such statutory obligations apply to the manufacturer or where the purchaser requires the supplier to retain quality-related documentation or product samples beyond the scope of any statutory obligations, the purchaser would need to pay consideration for such storage. In such cases, at a minimum, the purchaser should clearly indicate that it will pay for the storage of quality record documentation and similar materials when setting the consideration for the contract manufacturing services and request a price quotation from the subcontractor on that basis. If this is done properly, it may be possible to agree to a single amount of consideration for the manufacturing services that includes compensation for storage and related services. However, in transactions subject to the Proper Transactions Act, purchasers may increasingly be required to clearly distinguish and specify the consideration for storage and similar services separately from that for the core contract manufacturing services.