

Japanese Amended Construction Business Act Fully in Effect and Updates to the Construction Business Compliance Guidelines

Construction / Infrastructure Newsletter

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1. Amended Construction Business Act and Revision of the Guidelines Enter Into Force

The Act Partially Amending the Construction Business Act and the Act on Promoting Proper Tendering and Contracting of Public Works were enacted in June 2024. In this article, the Japanese Construction Business Act as amended by the bill above will be referred to as the **“Amended CBA”**.

The amendments are designed to secure and sustain the workforce in the construction industry by introducing measures to:

- (i) Secure financial resources to improve the treatment of workers engaged in construction and ensure that those resources are passed down appropriately to subcontractors;
- (ii) Facilitate the smooth pass-through of increases in materials prices to prevent downward pressure on labor costs; and
- (iii) Promote work-style reform and productivity improvement.

For an overview of the amendments as a whole, please see our newsletter titled [“Key Points of the 2024 Amendments to the Construction Business Act”](#), published on June 21, 2024.

The Amended CBA was implemented in stages and became fully effective on December 12, 2025. The major amendments that came into effect in December 2025 include the following (among others):

- Contractors are prohibited from entering into construction contracts with unreasonably low contract prices or unreasonably short construction periods (Amended CBA, Articles 19-3, paragraph 2, and 19-5, paragraph 5)
- Clarification of matters to be included in construction estimates, and prohibition on estimates that are significantly lower than the amount of materials costs and other expenses ordinarily required to perform the relevant work (Amended CBA, Article 20, paragraphs 1 and 2)
- Prohibition on requesting changes to estimated amounts to reduce them to levels significantly below the amount of materials costs and other expenses ordinarily required to perform the relevant work, and the introduction of recommendations and public announcements against owners that execute contracts in violation of this prohibition (Amended CBA, Article 20, paragraphs 6 and 7)

In connection with these amendments, the amended Enforcement Order of the Construction Business Act also entered into effect on December 12, 2025.

In addition, in line with the full entry into force of the Amended CBA, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) revised the “*Guidelines for Compliance with the Construction Business Act between Owners and Contractors (8th Edition)*” and the “*Guidelines for Compliance with the Construction Business Act between Prime Contractors and Subcontractors (12th Edition)*” (published in January 2026).

In particular, these revised guidelines reflect the purpose and intent of the provisions that came into force in December 2025, and present specific interpretations of, and practical examples for, each phase of a construction project, including preparation and modification of estimates, contract execution, and post-contract change negotiations. As a result, now, more than ever, construction businesses now are required to implement practices that go beyond formalistic contract compliance and are supported by rationality and explainability.

2. Major Amendments Taking Effect in December 2025, and Corresponding Guideline Provisions

(1) Extension of the Prohibition on Below-Cost Contracts and Construction Period Dumping to Contractors

Even before the amendments, owners were already prohibited from abusing a superior bargaining position to execute construction contracts at prices below the costs ordinarily required for proper execution of the work. The amendments expressly extend this prohibition to contractors as well.

Pursuant to Article 19-3, paragraph 2 of the Amended CBA, contractors are prohibited from entering into construction contracts at prices below the cost ordinarily required to complete the relevant construction work, except where there are justifiable reasons (as set forth in MLIT ordinances), such as the contractor's ability to use inexpensive materials already owned by the contractor.

Notably, the guidelines clarify that this obligation applies not only at the time of contract execution, but also where it becomes necessary to revise the contract price, due to circumstances arising after contract execution that are not attributable to the contractor. In these situations, unless justifiable reasons exist, contractors must seek appropriate contract amendments that ensure the contract price does not fall below the cost ordinarily required for execution of the construction work. Accordingly, contractors are required to initiate negotiations with owners concerning these contract amendments.

Similarly, while owners were already prohibited from entering into construction contracts with unreasonably short construction periods even before the amendments, Article 19-5, paragraph 2 of the Amended CBA now prohibits contractors from entering into construction contracts with construction periods that are significantly shorter than the periods ordinarily required for proper execution of the work.

The guidelines clarify that this prohibition also applies where it becomes necessary to revise the construction period, due to circumstances arising after contract execution that are not attributable to the contractor. In these situations, contractors must seek appropriate contract amendments to ensure the construction period does not end up being significantly shorter than the period ordinarily required, and therefore are required to initiate negotiations with owners concerning the relevant amendments.

(2) Strengthening of Regulations at the Estimate and Contracting Stages

Even before the amendments, contractors already were subject to a legal obligation to make efforts when preparing construction estimates. Under Article 20, paragraph 1 of the Amended CBA, this obligation has now been clarified: contractors are required to endeavor to prepare a 'Cost Breakdown Estimate' that sets out not only the material and labor costs for each category of work, but also the essential expenses necessary to ensure proper execution of the construction work (as specified in the relevant MLIT ordinance).

Article 20, paragraphs 2 and 6 of the Amended CBA state that: (i) the amount of material costs and other expenses set forth in such estimates must not be significantly lower than the amounts ordinarily required to complete the relevant work, and (ii) owners are prohibited from requesting changes to estimates issued by contractors that would result in the amount of materials costs and other expenses being significantly lower than the amounts ordinarily required to complete the relevant work.

The guidelines state that the "amount of materials costs and other expenses ordinarily required" refers to the amounts ordinarily required for the relevant construction work, taking into account factors such as the regional characteristics of the construction site and the specific details and scope of the work.

Article 34 of the Amended CBA introduces a new system for labor costs, pursuant to which the Central Construction Industry Council formulates and recommends the implementation of "*Standards for Labor Costs*." The guidelines expressly state that these standards are an important indicator when assessing the appropriateness of labor costs.

As a result, the amended framework is designed to deter the submission of estimates based on unreasonably low labor costs, as well as requests for revisions to estimates premised on unreasonable assumptions. If an owner violates these rules by requesting improper revisions to an estimate and a construction contract is executed based on the revised estimate, Article 20, paragraph 7 of the Amended CBA allows the competent authority to issue a recommendation against the owner, where the authorities deem it particularly necessary to do so.

Article 6-2 of the amended Enforcement Order of the Construction Business Act provides that the minimum contract price thresholds for which a recommendation may be issued have been specified by Cabinet Order: JPY 5 million, or JPY 15 million in the case of comprehensive building construction work.

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