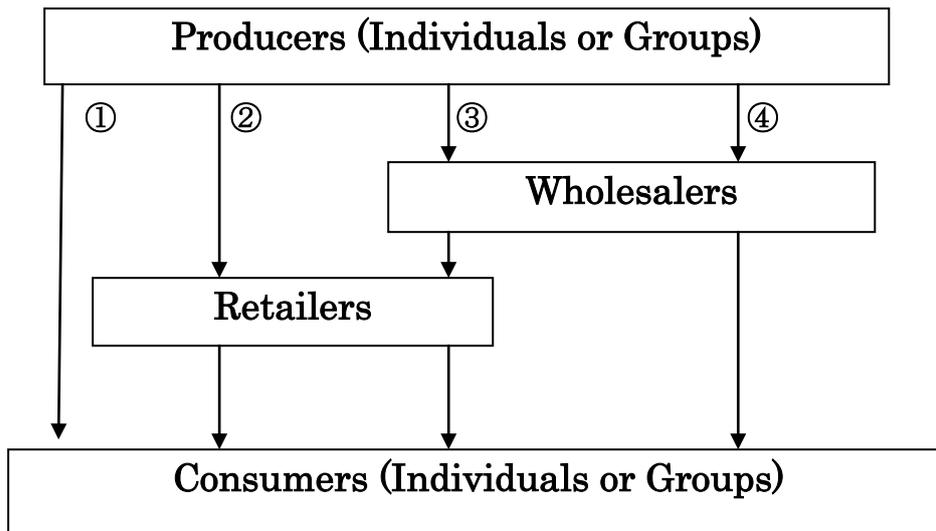


# **Outline of Wholesale Market in Japan**

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1. Basic modality of agricultural products distribution course



2. The definition of Wholesale Market

“Wholesale Market” means the markets continue to operate wholesaling fresh products such as vegetables, fruits, fish, meats, flowers based on facilities for trading and handling products, such as wholesaling space, parking lots and the like.

3. Kinds of Wholesale Markets

Any wholesale markets in Japan are regulated by the **Wholesale Market Law** as to its establishment and operation.

Any wholesale markets are established by a prefecture, city or other local self-governing body, and operated by a private company. Since it has the public functions of remitting sales proceeds to the shippers, supplying perishable foods to the cities and towns and stabilizing commodity prices, it is protected and regulated by the law.

**Central Wholesale Markets (CWM)** ; could be established in more than 200,000 population city, approved by Minister of Agriculture. CWMs are operated by the following members.

Operating members	Qualified organization or persons	Approver
Establishment Authority	Local Government	Minister of Agriculture
Wholesaler	Joint Stock Company etc.	Minister of Agriculture
Intermediate wholesalers	Joint Stock Company or individual business persons	Establishment Authority
Relevant business partners*	Joint Stock Company, Individual business persons	Establishment Authority
Authorized Buyers	Joint Stock Company or individual business persons	Permitted by Establishment Authority

\*They provide relevant services for CWMs such as package material supply.

**Local Wholesale Markets (LWM)** ; other wholesale markets except for central wholesale markets, approved by prefecture governors

LWMs are operated by the following members.

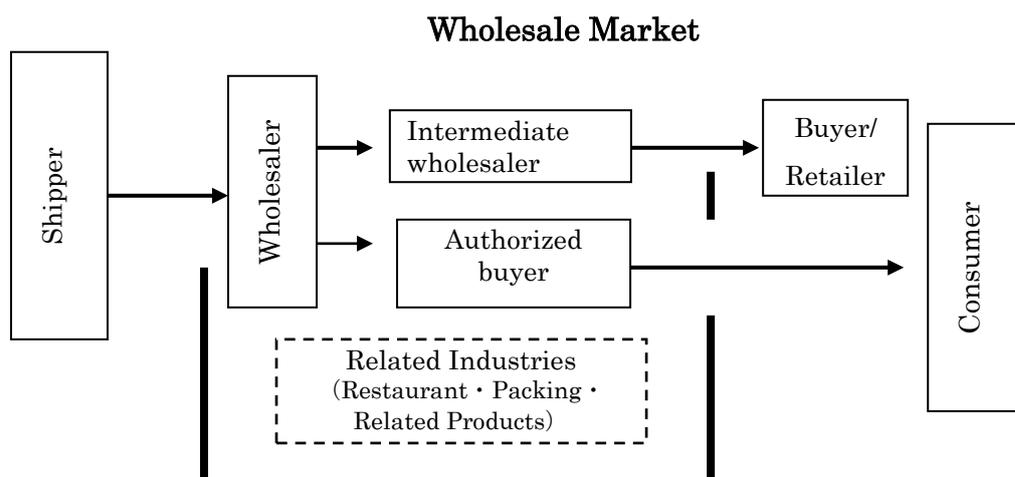
Operating members	Qualified organization or persons	Approver
Establishment Authority	Local Government, Joint Stock Company, Agricultural or fishery cooperative,	Prefecture Governor
Wholesaler	Joint Stock Company etc.	Prefecture Governor
Intermediate wholesalers	Joint Stock Company, Individual business persons	Designated by Prefecture Governor
Authorized Buyers	Ditto	Ditto

#### 4. Number of Wholesale Markets, Traded Value, Number of Members (Unit ¥100 mil.)

	Number of markets	Traded value	Wholesalers	Intermediates	Authorized buyers
Central Market	64 in 40 cities	39,110	166	3,413	26,094
Fresh vegetable & fruits	49 in 37 cities	19,104	72	1,391	12,025
Fish	35 in 30 cities	15,839	56	1,854	3,788
Meat	10 in 10 cities	2,719	10	69	1,812
Flower	16 in 12 cities	1,257	20	85	7,905
Other	6 in 5 cities	191	8	14	564
Local Market	1,092	31,329	1,293	2,696	115,480

Data Source : MAFF "Wholesale Data Book" in 2014

#### 5. Flow of Trading



## 6. Mechanism of trading in wholesale markets

### (1) Operational Framework

Establishment authority: Prefecture or city

Installation is permitted by the government.

Sellers: Wholesalers; permitted by the Minister of Agriculture, Forestry and Fisheries or the governor of prefecture.

Buyers: Brokers, retailers; permitted by the authority that has established the wholesale market.

(2) Basic rules for trading : equality, fairness and openness

(3) Consignment sale: Each shipper **consigns the sale** of its product to the wholesaler.

The shipper pays a fixed commission to the wholesaler. Commission rates are fixed by the above law.

Commission rates      Percent of sales proceeds

Vegetables	Fruits	Marine products	Meat	Flowers
8.5	7.0	5.5	3.5	9.5

(4) Selling method: As a rule, products are **sold by public (open) auction**. In 2002, the law was revised to permit negotiated transactions (one to one negotiation) too.

Trading in the market is limited to **spot transaction**, not subject to future transaction or not involved in future market.

(5) Shippers : There are no restrictions for shipping. **Anyone can ship**. Rejection of consignment and discriminatory treatment are prohibited.

Commodities of large shippers and those of small shippers are treated in the equal manner.

(6) Sales proceeds: The wholesaler pays sales proceeds **in cash** to the shippers **within three days after the sale**.

(7) In Japan, wholesale markets have been well established and many products have long been distributed largely through wholesale markets. In particular, wholesale markets play the major role in the distribution of vegetables, fruits, fresh fishes and flowers.

Shares of wholesale markets in distribution of products      (2013) %

Vegetables	Fruits	Marine products	Beef	Pork	Flowers
70.2	42.2	54.1	14.6	7.3	78.0

## 7. Price Formulation

### (1) Open system or closed system

Commodity trading that is based on contract between sellers and buyers has primarily no disclosure requirement on details of agreed terms, but price fluctuation of fresh products gives so big impact on society that the price needs to be formulated fairly through open competition in wholesale markets as public trading places. Accordingly, basic trading in wholesale markets needs to be operated by **qualified auction coordinators (QAC)** through auction and bidding..

Under special conditions, negotiated transaction between sellers and buyers has been allowed since 2002. As a result, the share of negotiated transactions has been larger than the share of auction in wholesale markets in these days due to increase of large scale purchase by supermarkets.

**Qualified Auction Coordinators (QAC)** are employees of wholesaler companies in Wholesale Markets. They have to pass QAC examination managed by Establishment Authority such as prefecture governments that issue license for them.. After that, they become official and qualified auction coordinators. They can coordinate to set price for each commodity through auction and one to one negotiation. Since each QAC takes charge of specific kinds of commodity groups such as fish, leafy vegetables, cold area fruits, they are specialists for each kind of commodity groups. Sometimes they visit production places and ask them to ship the products to their own company in Wholesale Markets. Most coordinators are professional and well experienced. Everyday QACs propose starting price of each commodity for auction or one to one negotiation based on the day's indication about price movement, other markets situation. Since they sell the specific kinds of commodities to the specific buyers every day, they need to take special care of daily transactions. They are key players in Wholesale Markets.

(2) The characteristics of auction transactions

1) There are two ways, price up auction and price down auction.

Price up auction is a basic auction starting from the lowest prices through showing finger signs or voice.

Price down auction is starting from the highest prices that are shown on mechanical price indicators going down. Buyers need to stop the indicators at their buying prices. Flower auctions introduced this type auction.

2) Essential requirement is competitive situation among several buyers

3) It is possible to sell large amounts of products within short time

4) It is possible to ensure fairness through open and competitive price formulation

5) As the price reflects supply and demand situation on the trading day, big price fluctuation often takes places.

6) Large buyers can not show their buying power in the markets.

(3) The characteristics of negotiated transaction between buyers and sellers

1) This transaction is suitable for the products with clear and united quality standards

In other words, it is difficult to trade unstable quality products through this transaction.

2) More advantages could be received by limited numbers of buyers in less competitive situation in negotiated transactions than in auction transactions.

3) Contract base transactions need to be negotiated between sellers and buyers for longer term. Auction transactions cannot fix price and trading volume in advance. (Daily change)

4) The price formulated on the previous day's price in the transaction is more stable than auction price.

## 8. Basic function of wholesale markets

### (1) Collecting and dividing products

- To collect all kinds and all quality grade of fresh commodities from all over the country and the world
- To provide necessary amounts of necessary commodities for buyers
- To adjust supply and demand volume through daily transaction

### (2) Price Formulation

- To set suitable price for each commodity through comparison between daily supply and demand at one point
- To sell all collected commodities on the day without commodities left unsold, regardless to price
- To show wholesale prices referred by other sellers and buyers outside the markets  
The openly set prices become official quotations that are standard prices for relevant transaction.

### (3) Settlement

- To remit or pay sales proceeds to shippers exactly within 3 days after shipment of the Products
- This payment by cash is very sure. This is the most attractive element for shippers.

### (4) Collection and dissemination of the information

- To collect and disseminate production situation in production places, supply situation, selling situation at retail shops, price change and the like
- To prevent from expectation buying and speculative movement through publicly showing accurate prices system of wholesale markets to contribute credibility and utilization of the market information.

## 9. Regulation on transaction and basic rules in wholesale markets

### (1) Fair and efficient transaction

### (2) Selling by auction or one to one negotiation

### (3) Prohibition to wholesale products outside wholesale markets except for the cases allowed by Establishment Authority

### (4) Prohibition on discriminate control and refusal to receive products

### (5) Prohibition on limitation of partners and wholesaling products other buyers who are not accredited intermediate wholesalers and authorized buyers

### (6) Prohibition on transactions similar to wholesale markets in unauthorized markets

## 10. Reasons for large shares of wholesale markets (vegetables, fruits)

Change of the share of products through wholesale markets in all products (Unit %)

	1980	1985	1990	1995	2000	2005	2013
Fresh Products	85.9	85.2	81.6	74.0	70.4	64.5	60.0
Vegetable	85.2	87.4	84.7	80.5	78.4	75.2	70.2
Fruits	87.1	81.4	76.1	63.4	57.6	48.3	42.2
Marine Products	86.0	76.9	72.1	67.6	66.2	61.3	54.1
Meat	19.1	22.2	22.6	15.5	17.1	10.3	9.8
Flower	79.2	77.6	82.3	81.9	79.1	82.8	78.0

Source : Wholesale Data Book

Change of the share of domestic products through wholesale markets in all domestic products (Unit %)

	2002	2003	2004	2005	2006	2013
Fresh products	93	93	93	91	92	86

Source : MAFF "Supply and Demand of Food"  
Estimated data from the market reports

- 1) **Objective pricing:** Prices of products are set by public auction. They serve as bases of transactions.
- 2) **Guaranteed payment of sales proceeds:**  
Payment of sales proceeds within three days after sale is guaranteed.
- 3) **Land and building:** Land and building for a wholesale market are acquired by the competent local self-governing body, and construction of the building is subsidized by the central government. The wholesaler pays the fees for use of the land and building.
- 4) **Price stabilization system:**  
The compensations based on the price stabilization system for specific vegetables (i.e., vegetables which especially need price stabilization) are granted to those vegetables which are sold in wholesale markets. (Recently the scope of the compensations has been expanded.)
- 5) **Prohibition of acts similar to those in wholesale markets:**  
Constructing any sales facilities similar to wholesale markets is prohibited by law.
- 6) The agricultural cooperatives, the largest shippers can select wholesalers to which they consign the sale of their products.
- 7) The supermarkets, the largest buyers can utilize intermediate wholesalers to cut the cost of purchasing.

## 11. Transition of Wholesale Marketing System

(1) Since more than 200 years ago (Edo era, Meiji era), there have been places for wholesaling vegetable, fruits and fresh fish, but while transactions there were closed and exclusively operated by limited wholesalers, many intermediates produced large gaps between consumer prices and farm gate prices as a result.

In accordance with the development of Japanese economy during the transition period (1880-1910), the unjustified profits that wholesalers got became a political problem.

While the economy was in good condition in 1914-15, inflation of daily goods took place and became a serious social problem. In spite of the stabilization measures by cracking down order on unfair profits, too high rice price triggered attacking rice wholesalers by people in Toyama prefecture and spread all over the country. We called it "Rice Riot".

Considering the serious situation, the Government started to establish official "Wholesale Markets" to control closed transaction of fresh products by wholesalers and to modernize such transaction system.

In the middle of such circumstances, “the law of the central wholesale markets” was promulgated in March 1923 and became effective in November 1923.

The principles of this law are as follows; 1) Establishment Authority shall be local governments. 2) The transaction way was limited to open auction or bidding so as to ensure fair and equitable transactions. 3) The income of wholesalers was not from the differences between selling prices and buying prices, but limited to commission honorarium (fee) for coordination efforts of collecting and selling products. The commission rate was fixed by the law.

(2) The first official wholesale market was established in Kyoto City in 1923. After that, many official wholesale markets were established all over the country. In Tokyo, Tsukiji Market started their operation in 1935. This delay was due to the big earthquake in Kanto region in 1923.

(3) During the World War II, all fresh products were distributed to people under control by the government. The wholesale markets had stopped the normal operation.

In 1950, the wholesale markets restarted their normal operation after the end of controlled distribution.

During the disorder age just after the World War II, the fair, equitable and open transactions in official wholesale markets contributed to normal marketing of fresh products to some extent.

(4) However, due to economic development such as appearance of large scale retailers, expansion of livestock products, the usual transaction system of wholesale markets could not meet needs of every stakeholder in 1960's. In 1971, “the law of the central wholesale markets” was replaced by “the Wholesale Market Law” to control not only central wholesale markets but also local wholesale markets, because the government control need to extend to not only central markets but also local markets. According to the new law, the ways of transactions could include person to person (one to one) transactions, “purchase of products by wholesaler”\* (not consigned from farmers), transactions on samples, besides the usual transactions such as auction.

\* Wholesalers in the markets were allowed to buy products from farmers to attract big buyers by the new law. If wholesalers collect only consigned products, it is difficult for them to prepare all kinds of products that big buyers need in advance, because wholesalers cannot decide what kinds of products come to their market in advance. If they identify some lacking kinds of commodities, they have to buy them from other sources.

(5) In 1999, considering lower profit operation of wholesale market stakeholders based on the new circumstances such as more large scale retailers, expansion of chain-store system retail shops, enlarging one production place, developed IT, the government has taken the deregulation measures on control of consigned collection to allow “sample transaction”\*, for improvement of efficient transaction and aimed to ensure restructure of wholesale markets and improved management of wholesalers and intermediates.

\* The Market Law prohibited futures transaction and sample transaction, and allowed only spot transaction before 1999. However spot transactions are inconvenient for big buyers to prepare big space in the wholesale markets. After the amendment, wholesalers can send products from production sites to buyers storage directly after settlement of sample transactions. No need to prepare big space in the wholesale markets.

(6) In 2004, the Government took countermeasures for “**food safety**”<sup>\*</sup> in markets and strengthened market functions through several measures such as flexible setting on commission rate, abolition of reporting duties on second business besides wholesale business, allowing selling activities outside the wholesale markets, free purchasing activities for collecting products, cold-chain system development, more restructure of the wholesale markets.

\* Food safety measures mean temperature control of products by cold equipments and facilities as the first step. They have not yet included Traceability Establishment, because Traceability system requires huge cost.

## **12. The way of settlement**

(1) The Wholesale Market Law provided that the wholesalers in the markets shall pay sales proceeds to shippers by the next day of the sold day. (In most cases, within 3 days after the shipment) (The next day payment was an old custom of vegetable and fish retailers who finished selling all purchased products within one day.) Intermediate wholesalers and authorized buyers have organized credit associations (shouldering associations on behalf of them). On behalf of such intermediate wholesalers, the associations pay sales proceeds to wholesalers.

(2) The sure payment of sales proceeds is one attractive factor of wholesale markets for shippers.

## **13. Information and statistics**

Since wholesale markets have large share in marketing, accurate and objective information about daily transactions is publicly available. Such information constitutes marketing statistics that are detailed and reliable.

In the case of comparison of international data, accuracy of each statistics should be taken into consideration.

## **14. The examples of utilizing the information**

The all organizations of agricultural cooperatives (ACs) make daily shipping plans based on results of selling price and volume on the previous day from wholesalers in Wholesale Markets and use such data for joint (pool) calculations of sales proceeds distribution.

(1) Details of sale data (price and volume) on the selling day are sent from wholesalers to all organizations of ACs through internet, called VEGEFUL NET, until the afternoon of the selling day. The all organizations review the results of selling products by each wholesaler

company respectively through the graph-base analysis of price and volume of products sold by each wholesaler company.

- (2) The all organizations of ACs collect shipping volume on the next day from each collecting and sorting facility of ACs. They make shipping volume plans based on comparisons between collected volume (supply) and requesting volume (demand) from each wholesale company.
- (3) They make optimal shipping volume to individual wholesaler company in individual wholesale market on computer system analysis and decide final shipping volume by quality & grade to individual wholesaler company.
- (4) Based on selling price and volume of each item of products in the details of sale data, each AC distributes sales proceeds to each member farmer in accordance with selling volume by quality & grade shipped by the said member farmer. The payment to each farmer is calculated based on average prices set through pooling the all data from all wholesalers' selling results within a specific period.

## 15. Transaction in central wholesale markets

- (1) The share of auction/bidding (value-base) unit %

	Vege	Fruits	Fish	Frozen	Meat	Flower
1995	57.5	53.3	54.6	18.5	89.8	79.7
2000	35.3	33.7	45.3	16.0	83.0	68.5
2005	24.1	26.4	37.8	16.3	91.3	47.5
2012	13.4	18.0	32.5	15.8	84.7	29.7

Source: Wholesale Market Data book , page 20

Vege : Vegetable

- (2) The share of individual shipping organization unit %

	Vegetable					Fruits				
	1986	1991	1996	2001	2006	1986	1991	1996	2001	2006
Organization	80.0	80.3	78.2	80.7	81.3	73.9	75.8	73.8	79.7	78.8
Integrated ACs	72.8	73.5	72.5	75.4	78.5	55.9	58.1	61.6	70.8	70.5
Commodity ACs	1.0	1.1	1.1	2.4	1.2	11.2	12.2	7.6	4.7	4.1
Unofficial cooperatives	6.2	5.7	4.2	2.8	1.6	6.8	5.5	4.6	4.1	4.2
Individual Collectors/Shippers	16.6	16.7	17.6	15.6	14.0	23.1	20.8	19.4	17.8	18.5
Local collecting markets	3.4	3.0	4.2	3.7	4.7	3.0	3.4	6.8	2.6	2.7
Total	100	100	100	100	100	100	100	100	100	100

ACs : Agricultural Cooperatives

Sources: MAFF Fresh Products Shipping Organization Study Report

## 16. Comparison between Oota Market and Tsukiji Market

	Fresh Products					Fish Products				
	Sale		No. of stakeholder			Sale		No. of stakeholder		
	Volume ‘000t	Value ¥100mil	WS	Inter- mediate WS	Buyer	Volume ‘000t	Value ¥100mil	WS	Inter- mediate WS	Buyer
Oota	911	2,304	4	172	1,436	16	142	2	50	22
Tsukiji	327	845	3	106	774	544	4,345	7	736	323

	Daily in 2009					Flower				
	Sale		No. of stakeholder			Sale		No. of stakeholder		
	FP	Fish	FP	Fish	Flower	Volume ‘000t	Value ¥100mil	WS	Inter- mediate WS	Buyer
Oota	3.338	58	844	52	161		494	2	19	2.025
Tsukiji	1.198	1.984	310	1.586	—					

## 17. History of Oota & Tsukiji Markets

This part will be explained by the staff of the markets.

## 18. Current issues of Wholesale Markets

- (1) The equitable rules of Wholesale Markets as middle position on the food chain have not been suitable for the circumstances of strong buying power of downstream stakeholders such as supermarkets, restaurants industry within food system.
- (2) The big issue is how to reduce marketing cost through some countermeasures of rationalization for producers and buyers.

Despite the development of physical distribution and IT, the rationalization of the total marketing system could not make progress due to the restriction of transactions by the Wholesale Market Law.

The principle of spot transaction in wholesale markets has been a factor to increase physical distribution cost.

- (3) Since mergers of many agricultural cooperatives have increased the scale of shipment, such merged cooperatives have constructed larger scale shipment facilities.

Supermarkets also are on the process of transition to “Integrated physical distribution system/logistics” that enables them to reduce the distribution cost through mixed loading of fresh products and non-food products by using their own loading and distribution centers. This integrated system could reduce the total cost covering the line from production sites to distribution centers and to retail shops and realize the optimal system for marketing and retailing.

- (4) Imported products are not familiar with transactions of wholesale markets that are spot and consigned selling as a rule.
- (5) The improved credibility on payment conditions of big users such as large scale retailers, food makers and strengthened money collecting capacity of cooperatives have increased direct transactions between them.
- (6) The share of exclusively holding marketing information by wholesale markets has been dropped due to increase of direct information exchange between production sites and retailing sites.
- (7) Once wholesalers and intermediate wholesalers were merged, they can perform full wholesaling operation to prepare and sell products. Such merged wholesalers have increased recently. It is a time to merge these two kinds of stakeholders.
- (8) In 1923 the Central Wholesale Market Law was promulgated after the Rice Riot in 1918. This law established fair transaction places.

After that the Law has been amended in accordance with socio economic transition and has still been playing a central role as fair price formulation places.

Facing deficit financial situation of local governments (Establishment Authority) to operate wholesale markets, MAFF has been making efforts for the amendment of the Law and regulations to respond to rationalization of marketing so far.

## 19. Future direction to improvement of wholesale markets facilities and operation

— Summary of the Basic Policy on Wholesale Markets of MAFF in October 26, 2010

### (1) Core central markets

The demarcation of roles & functions between big scale central markets and small scale central markets needs to be clarified and efficient network needs to be established.

### (2) Cold-Chain System

In order for the facilities to meet the needs of producers and retailers, low temperature transaction space, places for sorting collected products and refrigerators for each suitable temperature range need to be established in markets.

### (3) Relevant facilities

Facilities to meet needs of big scale retailers, specific commodities retailers, food industry processors. Processing facilities, Storing facilities, Transporting facilities.

### (4) Rationalization of transaction ways

① The basic rule to control transactions for fair transaction and transparent and appropriate price formulation shall be kept.

“Market Transaction Committee”(established in each market and consists of stakeholders) shall set the reasonable transaction ways in accordance with each wholesale market situation.

② The market stakeholders such as Establishment Authority, wholesalers, intermediate wholesalers shall set rules for transparent price formulation and fair transactions and provide necessary information in accordance with increase of person to person transactions.

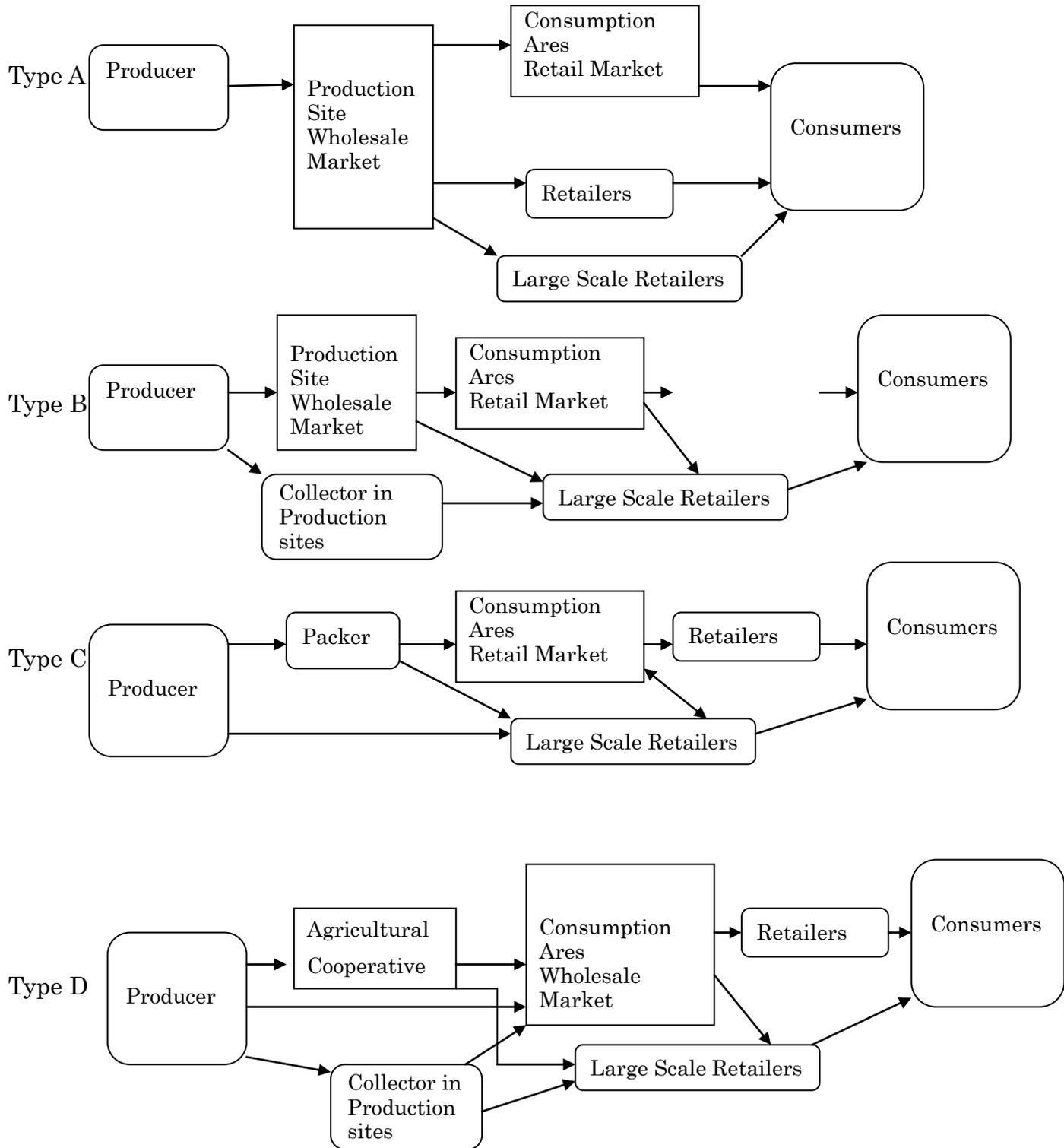
### (5) Strengthening management capacity of wholesalers and intermediates

In order to play the wholesale market role to meet the needs, wholesale markets need to expand their operation scale and to strengthen their constitution.

Each market needs to set transaction sales target per staff within a target year in the market as management improvement indicators.

Each market needs to expand its operation scale through mergers, transfer of business rights, establishment of capital relationship on trans-boundary operation areas, establishment of joint investment companies.

### Wholesale Market models of foreign countries



**Typical Country**

- Type A ; Netherlands
- Type B ; China
- Type C ; USA
- Type D ; Japan, Korea