

# The Situation surrounding Japan's wholesale markets of farm products focusing an issue of their public nature

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## ■ Abstract

Wholesale markets in Japan have a history of nearly 100 years since the Central Wholesale Market Act was enacted in 1923. During this period, amendments of the Act were made several times, including a change to the Wholesale Market Act in 1971, to make the Act adjust to the existing state of the wholesale markets. These are considered as amendments of the existing state-ratification type, aiming at introducing flexibility into regulations on transaction methods and others.

Contents of the latest amendment of the Wholesale Market Act, which was made in 2018, are mostly based on the “Recommendations for Promoting Distribution Structural Reforms including Wholesale Markets” submitted by the Council for Promotion of Regulatory Reform that was organized in the cabinet office of the Abe's administration in 2016. The amendment, namely, aimed at the direction to continuously minimize involvement of the national and local governments in the wholesale markets. There are various arguments on the latest amendment of the Act. Some experts have a positive opinion that the amendment will increase options of places for shipment and purchasing by promoting diversification of the wholesale markets. Other experts, on the other hand, have a negative one that a public function played by the wholesale markets in securing stable supplies of foods will be undermined.

In contrast to Japan taking the policy direction to minimize the involvement of national and local governments, governments of major countries of the European Union (EU) have considered wholesale markets as public goods and been playing a leading role in being involved with management and maintenance of those goods. The national and local governments in Japan will be also possibly required to be deeply involved in the wholesale markets for the purpose of maintaining a public function of providing the people with stable supplies of food products during years to come.

## ■ Introduction

The Wholesale Market Act was amended at the 196th Ordinary Session of the Diet in 2018. The latest amendment minimizes the involvement of national and local governments in wholesale markets. On the other hand, it will possibly promote diversification of these markets, which have been managed so far in almost uniformed manners throughout the country, by considerably expanding the degree of discretion of wholesale market

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establishers. Under the amended Act, furthermore, options of places for both producer's shipment and user's purchasing will be increased. However, public nature (Note 1) that the wholesale markets have continued to bear, or a function played by the markets in providing consumers with fresh foods and other farm commodities in smooth and stable manners can be concurrently undermined.

This paper aims at considering possible changes in wholesale markets which will be brought about by the latest amendment of the Wholesale Market Act to minimize administration's involvement in the markets, based on the history of the markets marking a landmark event of the Act amendment, with a special focus on relationship between public sectors and wholesale markets.

The paper is composed of several sections. The first section organizes information on historical changes in legal systems of the wholesale markets in Japan. In the second section, recent trends of the wholesale markets, which are considered to have lost their competitiveness (Note 2), will be clarified with relevant data and other information. The recent amendment of the Act, furthermore, will be examined in detail. In the final section, wholesale markets in some major countries of the European Union will be taken up as contrasting examples to consider how respective governments and related bodies have been involved in governing their wholesale markets, because there are some views raising concerns that the Japanese wholesale markets will not be able to maintain their public nature as involvement of Japan's government and relevant agencies in the markets continues to shrink in the future.

**(Note 1)** The public nature of wholesale markets seems to be interpreted in most cases as a "function of providing consumers with fresh foods and other farm commodities in smooth and stable manners". Careful attention, however, needs to be paid to its definition, because some advocates define the public nature in a subtly different way, while others put an ambiguous definition on it.

**(Note 2)** At a joint meeting held on October 25, 2017 by the Working Group on Agriculture and Forestry of the Council for Promotion of Regulatory Reform and the Working Group on "Regional Economy and Infrastructure" of the Meeting for Thorough Promotion of Structural Reform of the Council on Investments for the Future, Chairperson of the latter Group Akio Mimura expressed his opinion stating, "Obviously the wholesale markets in this country have been losing its competitiveness due to changes in environments and others surrounding the markets". See details in the outline of minutes of the joint meeting.

## 1. Historical changes in legal systems of the wholesale markets in Japan

In this section, a chronological arrangement of information will be made on changes in transaction principles, consignment commission rates and so on, under the Central Wholesale Market Act as well as its successor or the Wholesale Market Act.

### 1.1 Era of the Central Wholesale Market Act (1923 to 1971)

In the 1910s, hard bargain driven by wholesale dealers against producers and their restrained sales to consumers occasionally caused a sharp rise in prices of essential foods for daily living of the people, which forced a vulnerable group to struggle with the difficulties of life, posing a serious social problem in the country. One of the symbolic social problems was a civic disturbance called the rice riot that took place in 1918. In response to this nationwide social problem, a strong advocacy for opening central wholesale markets increasingly grew in the country, which brought about enactment of the Central Wholesale Market Act. Under this new Act, a central wholesale market was established in Kyoto city

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for the first time in Japan.

Under the Central Wholesale Market Act enacted in 1923, a basic framework of the wholesaling system, which leads also to today's market distribution, was decided to allow only local governments and public service corporations to establish a central wholesale market, in which wholesalers that were granted licenses by the establisher of the market were exclusively eligible to join transactions at the market in accordance with predetermined principles of transaction. Transaction principles that were put forward at this time include ones concerning sales by auction, consignment collection of commodities, concurrence of sales and logistics with commodities brought into wholesale markets being exclusively auctioned in the markets, publication of auction results, etc. (See Table 1).

In 1956, the Central Wholesale Market Act was amended for the first time after going through the time of suspension in the command economy during the Pacific War period. To cope with the problem that many wholesale markets were flooded with wholesalers competing each other at that time, new provisions were added to the Act to exclude mergers of wholesalers from application of the Anti-Monopoly Act and impose an upper limit on the number of wholesalers per central wholesale market.

In the following amendment made in 1958, another provision was added to the Act, aiming at stabilizing management of wholesalers who had exhausted their businesses by accelerating competition among themselves to collect commodities from production areas. The new provision allowed the market establisher to impose some regulations on the transaction methods of wholesalers by controlling their payments of shipment promotion subsidies and shipment completion bonuses at an appropriate level, as well as to cancel the licenses of wholesalers by screening them with criteria of their net asset values.

The final amendment of the Central Wholesale Market Act was made in 1961. To meet demands for perishable foods, which had been expanding particularly at large cities in the high economic growth period, the amendment mainly aimed at not only newly establishing a central wholesale market in each of major cities throughout the country, but also promoting reorganization of smaller wholesale markets located in areas surrounding the designated region of respective central wholesale markets.

Table 1 Changes in the Central Wholesale Market Act

Year	Enactment & Amendment	Major changes
1923	Enactment	- Establishment of central wholesale markets exclusively by local governments, or by public interest corporations when special circumstances make it desirable.
		- Introduction of the license system for wholesalers under the local governor (mayor).
		- Principles of sales by auction, consignment collection of commodities, concurrence of sales and logistics with commodities brought into wholesale markets being exclusively auctioned in the markets, obligation to report wholesale amounts and prices, etc.
		- Monitoring on transactions by the establisher of the wholesale market.
1956	Amendment	- Clear indication of a designated zone for the central wholesale market (a place and neighboring areas with a population of more than 150 thousands).
		- Limitation on establishers of central wholesale markets exclusively to local governments.
		- Introduction of the license system for wholesalers under the Minister of Agriculture and Forestry.
		- Exclusion of mergers and the like of wholesalers in the central wholesale market from application of the Anti-Monopoly Act.
1958	Amendment	- Restriction on use of the name of a central wholesale market.
		- Regulation on payments of shipment promotion subsidies and shipment completion bonuses based on operational rules of the wholesale market.
		- Revocation of licenses issued to wholesalers whose net asset values are lowered to less than a certain level.
1961	Amendment	- Establishment of new central wholesale markets and promotion of improvement of existing markets.
		- Expansion of the application exclusion of the Anti-Monopoly Act to mergers and the like of wholesalers.
		- Addition of bidding into transaction methods.
		- Implementation of necessary recommendations by the Minister of Agriculture and Forestry to wholesale markets located in surrounding areas of the designated zone.
		- Set-up of the Central Wholesale Market Council in the Ministry of Agriculture and Forestry.

SOURCES: Compiled from Wakutani (1977), Yoshida (1978), and The Daily Food News Paper, ed. (2005).

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## 1.2 Era of the Wholesale Market Act (1971 to today)

The Wholesale Market Act was enacted in 1971, succeeding the abolished Central Wholesale Market Act. Coping with a new environment of greater progress of urbanization and enlargement of production areas, local wholesale markets were also included into subjects to be regulated under the new Act in addition to central wholesale markets, aiming at promoting establishments of wholesale markets and improvement of their facilities in a planned manner (See Table 2).

As mass-market retailers were emerging, moreover, the market started to accept new transactions such as advance-order negotiation transactions, transfers of commodities to other wholesale markets and other deals, which were all conducted without auctions or biddings. These transactions had not been allowed under the previous Central Wholesale Market Act. An exceptional provision, therefore, was established in the new Wholesale Market Act to ratify the existing state in which new deals like advance-order negotiation transactions had taken root in the wholesale markets, although the new Act continued to maintain its regulations on transactions such as principles of sales by auction and sales by bidding. The Wholesale Market Act was also amended in 1999 and 2004 respectively by abolishing some regulations on transaction methods or by providing other regulations with more flexibility toward the direction of ratification of the existing state in the wholesale markets.

In addition, the amendment of the Act in 2004 was most highlighted by introduction of a new system which made it possible for wholesalers to fix their consignment commission at any level since they notified their commission rates to the establisher of the market, details of which will be explained in the following section.

Table 2 Changes in the Wholesale Market Act

Year	Enactment & Amendment	Major changes
1971	Enactment	- Inclusion of local wholesale markets into subjects to be regulated under the Wholesale Market Act, which had been excluded under the previous Central Wholesale Market Act.
		- Planned promotion of establishment and improvement of central and local wholesale markets.
		- Substantial approval of exceptional transactions including negotiated transaction in advance, transfers of commodities to other wholesale markets, and the like by adding the proviso to the related provision, while the Wholesale Market Act maintained the provision of the previous Central Wholesale Market Act concerning regulations on transactions such as principles of sales by auction, sales by bidding, and prohibition of sales to third parties.
1999	Amendment	- Introduction of standards of guidance on finance of wholesalers.
		- Abolition of the principles of sales by auction and sales by bidding.
		- Relaxation of the principle concerning consignment collection (addition of a special provision for purchase collection).
		- Relaxation of the principle concerning concurrence of sales and logistics with commodities brought into wholesale markets being exclusively auctioned in the markets (addition of a special provision concerning a separate transaction of sales and logistics).
		- Newly applied obligation of announcement of auction results and the like by wholesalers.
		- Development of the provision concerning the accreditation of the status of the establisher of a wholesale market when the establisher changes to be an entity of a wider business area.
2004	Amendment	- Abolition of the principle for consignment collection (Full deregulation of purchase collection).
		- Relaxation of the regulations on sales to third parties and intermediate wholesaler's direct purchases from production areas.
		- Relaxation of the principle concerning concurrence of sales and logistics.
		- Addition of amounts and prices of sales to the third parties and the separate transaction of sales and logistics into a list of transaction results to be publicized by wholesalers.
		- Deregulation of consignment commission rates.
		- Development of provisions concerning the transition from a central wholesale market to a local wholesale market.
2018	Amendment	- Introduction of the certification system for the central wholesale market under the Minister of Agriculture, Forestry and Fisheries.
		- Introduction of the certification system for the local wholesale market under the prefectural governor.
		- Introduction of common rules on the requirement for the certification (principle of prohibition of entrustment refusal, principle of prohibition of discriminatory treatment, and publication of transaction methods, transaction conditions and transaction results).
		- Addition of provisions concerning establishment and publication of other transaction rules on sales to the third parties, direct purchases from production areas, and the like.

SOURCES: Compiled from Wakutani (1977), Yoshida (1978), Wholesale Market Act Research Society, ed. (1999), The Daily Food News Paper, ed. (2005), and the Ministry of Agriculture, Forestry and Fisheries (2017).

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### 1.3 Changes in commission rates

Most of wholesaler's business income comes from receipt of consignment commissions paid to them when they sell commodities collected from production areas on consignment basis. In other words, the system of consignment commission can be regarded as one of the major factors affecting their business management. On all occasions when the Wholesale Market Act and relevant regulations were amended in past years, therefore, an issue on how to formulate a desirable system for consignment commission always became so controversial.

When the Central Wholesale Market Act was enacted, the maximum-limit commission system was applied for consignment commission rates of wholesalers, which system is different from today's fixed rate system calculating an amount of commission by multiplying an amount of wholesales by a certain rate. Based on operational rules of respective central wholesale markets, the maximum commission rate was fixed at 10 percent of the amount of wholesales regardless of whether commodities handled in the market were fruits, vegetables, or marine products. Within the limit of 10 percent, wholesalers were required to fix their commission rates respectively (See Table 3).

The system of the maximum-limit commission had continued to work until the Central Wholesale Market Act was amended in 1958, while the competition for collection of commodities among wholesalers had been intensified during this period. Some wholesalers lowered their commission rates to secure receipt of an adequate amount of products, and others increased shipment promotion subsidies. Such competition made many wholesalers get into financial difficulties. In this situation, the wholesalers were required to secure financial strength at a certain level from a viewpoint of continuously providing the people with perishable commodities such as farm, forestry and marine products in smooth and stable manners. At the occasion of the amendment of the Central Wholesale Market Act in 1958, therefore, the consignment commission system was converted from the maximum-limit commission system to the across-the-board fixed rate system. Commodity-wise commission rates were fixed based on operational rules of respective central wholesale markets as follows: 10 percent for vegetables, 8 percent for fruits and 6 percent for marine products.

In the high economic growth period, commodity prices also continued to rise concurrently as wages were raised. The government was required to take measures necessary to achieve price stabilization particularly of perishable food items. In 1963, the Guidelines on Measures for Improvement of Fresh Food Distribution was publicized by the administration. The Guidelines covered the wholesale market distribution as well. Based on the Guidelines, consignment commission rates were lowered to 8.5 percent for vegetables, 7.0 percent for fruits, and 5.5 percent for marine products respectively. At the same time, payment of shipment promotion subsidies, which wholesalers paid to production areas, was also controlled. In the background of the above-mentioned reduction of consignment commission rates, there were not only price stabilization measures of the government, but also strong wishes of farmers in the production areas urging the administration to curb the commission rates to secure their farm incomes.

When the Wholesale Market Act was enacted in 1971, the fixed rate system of the consignment commission, which had been applied under the Central Wholesale Market Act, was succeeded, and the commission rates themselves also remained unchanged until the year of 2004. At the occasion of the 2004 amendment, a provision concerning flexibility of the commission rates was added as a part of measures to strengthen management bases of wholesalers. The consignment commission system, namely, changed from the previous fixed rate system to a notification system, under which wholesalers were respectively required to notify the market establisher of their own commission rates fixed by

themselves according to their functions and provision of services. The notification system of consignment commission was put into practice in 2009 after the passage of a preparatory period for implementation. To date, however, no wholesalers of fruits and vegetables in central wholesale markets has notified the market establisher of their changes in existing commission rates.

Table 3 Changes in consignment commission rates

Year	Major changes
1923	The Central Wholesale Market Act was first enacted, under which the official system of consignment commission rates was decided. The maximum-limit rate system was applied for the consignment commission rates of wholesalers instead of a fixed rate system. Based on operational rules of respective central wholesale markets, the maximum commission rate was fixed at 10 percent regardless of a kind of items handled in the market.
1958	The Central Wholesale Market Act was amended to cope with financial difficulties faced by wholesalers due to excessive competition among themselves. Under the amended Act, it was made possible for market establishers to fix the across-the-board rates in their respective business rules as follows: 10 percent for vegetables, 8 percent for fruits and 6 percent for marine products.
1963	The government, which was required to take measures necessary to achieve price stabilization particularly of perishable food items, notified the Guidelines on Measures for Improvement of Fresh Food Distribution. Based on the Guidelines, consignment commission rates of the wholesale markets were lowered to 8.5 percent for vegetables, 7.0 percent for fruits and 5.5 percent for marine products respectively. In this background, shippers in the production areas also urged the administration to curb the commission rates to secure their income. At the same time, measures were also taken to control the payment of shipment promotion subsidies.
1971	Although the Wholesale Market Act was newly enacted, the consignment commission rates under the previous Central Wholesale Market Act remained unchanged: 8.5 percent for vegetables, 7.0 percent for fruits, and 5.5 percent for marine products.
2004	In the amended Wholesale Market Act, a new provision on more flexibility in the commission rates was added, allowing wholesalers to fix their commission rates by themselves according to their functions and service provision. When the wholesalers change their commission rates, they are required to notify the changes to the market establisher. However, almost of wholesalers have not really changed their commission rates.
2018	Although the Wholesale Market Act was amended again, the commission system which allows wholesalers to fix their commission rates by themselves continued to remain.

SOURCES: SOURCES: Compiled from Wakutani (1977), Yoshida (1978), Wholesale Market Act Research Society, ed. (1999), The Daily Food News Paper, ed. (2005), Ministry of Agriculture, Forestry and Fisheries (2017), “Wholesale Market Data Collection” of the Ministry of Agriculture, Forestry and Fisheries (MAFF), and MAFF’s Website.



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The commission system which allows wholesalers to fix their commission rates by themselves remained also in a bill of amendments to the Wholesale Market Act submitted in 2018 (Note 3). Based on the progress since the notification system began to be implemented in 2009, any wholesaler is hardly expected to appear promptly to notify a change of consignment commission rates.

**(Note 3)** As for the commission system of the central wholesale markets, see “4. Publication of conditions for sales and purchases” in a list of Article 4, Para. (5), Item (v) of the Bill of amendments to the Wholesale Market Act. As for the same system of local wholesale markets, see “4. Publication of conditions for sales and purchases” in a list of Article 13, Para. (5), Item (v) of the said Bill.

## 2. Trends of wholesale markets in recent years

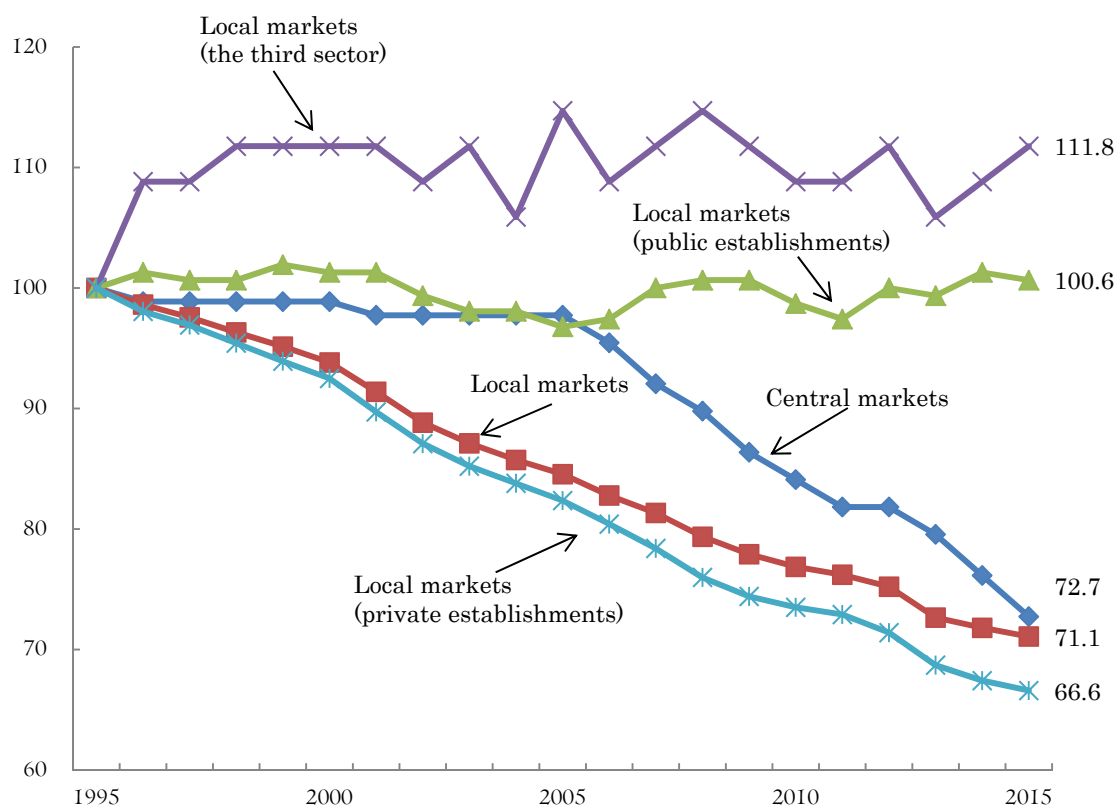
The wholesale markets are considered to have lost their competitiveness. This section will clarify what kind of changes have been taking place in wholesale markets recent years with data and related information of the Ministry of Agriculture, Forestry and Fisheries (MAFF). Among various commodities handled in the wholesale markets, vegetables and fruits will be particularly focused in the following paragraphs.

### 2.1 Declining number of wholesale markets in the country

The Okinawa Prefectural Central Wholesale Market opened in 1984, when major cities in Japan completed a round of establishing their respective central wholesale markets, reaching more than 80 in total. The framework of the central wholesale markets continued to exist without any great change almost until the middle of the 2000s. In 2004, however, the administration decided the basic policy for the eighth wholesale market development and launched a project of reorganization of those markets. In 2006, two central wholesale markets of Kushiro city in Hokkaido prefecture and Oita city in Oita prefecture were converted into local wholesale markets respectively. Since then, similar conversions took place one after another, reducing the total number of central wholesale markets down to 64 as of March 31, 2017.

The number of local wholesale markets, on the other hand, continued to decline by as much as some 30 percent in a period from 1995 to 2015 (See Figure 1). Trends of the wholesale markets, nevertheless, greatly differ depending upon types of market establishers (public bodies, private organizations, or so-called the third sectors of semi-public corporations). Local wholesale markets managed by private organizations remarkably reduced their total number, while the number of local markets established by public authorities has been maintained almost at the same level. The number of local markets operated by the third-sector corporations, on the other hand, increased by more than 10 percent during 20 years since 1995. We can say, namely, that reorganization, integration, and discontinuance of business have taken place exclusively among local wholesale markets managed by private organizations, which are relatively small-scale markets based on fragile management foundations.

Figure 1 Changes in the number of wholesale markets in Japan (1995=100)



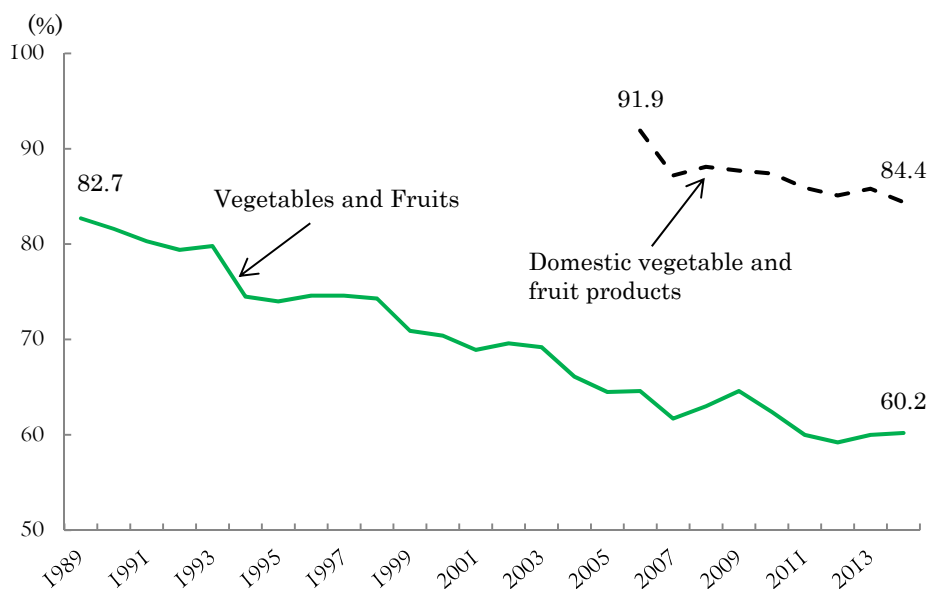
SOURCES: Compiled from “Wholesale Market Data Collection”, MAFF.

## 2.2 Wholesale markets remaining to have the largest share in distribution of perishable farm commodities

At recent meetings convened by the government and related organizations as well, declines in functions played by wholesale markets have been pointed out, which declines are revealed in reduction of quantities of commodities as well as in decreasing ratio of commodities sold through the wholesale market channel. Necessity of the reform in distribution channels including the wholesale markets themselves has been also argued at those meetings.

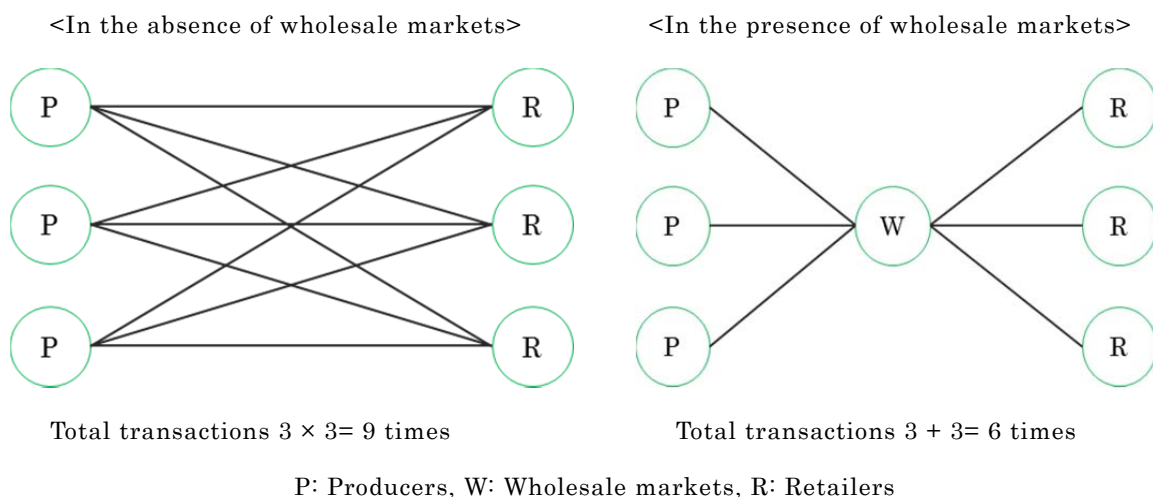
As a matter of fact, the ratio of vegetables and fruits sold via the wholesale markets fell to as low as 60.2 percent in 2014 (See Figure 2). Just for vegetables and fruits produced in the country, however, these commodities sold through the wholesale market channel represented 84.4 percent of the total in the same year, which can be never regarded as a low level. The wholesale markets remain as the largest distribution channel as ever for domestic production areas of those commodities. As pointed out in Hall (1949), one of reasons for their highest share in distribution of the commodities is that existence of a wholesale market between producers and retailers makes it possible to curtail distribution costs by minimizing a total number of transactions (See Figure 3).

Figure 2 Changes in ratios of vegetables and fruits sold via wholesale markets



SOURCES: MAFF (See Figure 1).

Figure 3 Principle of minimization of total transactions



SOURCES: Compiled from Fujishima. et al. (2012).

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Therefore, even though farmers' organizations like agricultural cooperatives, in accordance with the Agricultural Competitiveness Enhancement Support Act(\*) enacted at the 193rd Ordinary Session of the Diet, "endeavor to pay the utmost attention to increases in the farming income of farmers" (Article 5, para.3 of the said Act) and "promote direct sales of agricultural products to consumers by farmers or the farmers' body" (Article 13), we cannot necessarily say definitely that their endeavors will lead to "realize ... the rationalization of agricultural product distribution, etc." (Article 1) and "sustainable development of the agricultural industry in Japan in the future" (Article 4).

In addition, it has been also pointed out that wholesale markets need to seek new business models, including one dealing with commercial materials like foods of vegetable and fruit processed with imported raw materials for meeting business demands, which have not been yet handled in the wholesale markets. (Note 4).

(Note 4) See "Social roles played by wholesale markets and a future direction of their reform" (written in Japanese; 「卸売市場の社会的役割と今後の改革方向」) of Agriculture & Livestock Industries Corporation (ALIC). (\*Translations of Articles are quoted from the tentative translation of 'Japanese Law Translation Database system': <http://www.japaneselawtranslation.go.jp/?re=02>)

## 2.3 Conversion to a distribution structure like a collection and distribution market

In the 1980s, two peaks of nationwide development of central wholesale markets and production of vegetables in the country overlapped. In this situation, central wholesale markets in both local cities and metropolitan areas could not only directly collect the vegetables from various production areas throughout the country, but also sell them in a wider area than their previous business territories (Note 5).

When the 1990s began, enlarged production areas of horticultural products started inclining to concentrate their shipment of the products to central wholesale markets like distribution hubs in metropolitan cities. A new distribution structure like a collection and distribution market came into existence in the local cities (Note 6), in which a part of central wholesale markets located in the local cities secured supplies of the commodities with products transferred from the metropolitan wholesale markets.

This trend appears to be continuing even today. The total number of collection and shipment organizations of horticultural products declined from 4,951 in 1991 to 1,470 in 2006 due to large-scale mergers of multi-purpose agricultural cooperative. An average annual turnover of the shipment per organization, on the other hand, increased by 2.7 times from 1,467 tons to 3,950 tons during the same period (See Table 4). The enlarged production areas appear to make efforts in further concentrating their shipment of products to distribution hubs of the central wholesale markets in metropolitan cities like the Tokyo Metropolitan Central Wholesale Market Ota Market and the Osaka Municipal Wholesale Market Honjo, in which those production areas can expect that a large cargo of products will be unloaded at one market and be sold out there.

As if responding to such trend, central wholesale markets in local cities have begun to make efforts in securing a huge assortment of horticultural products to meet growing demands of consumers in respective regions by handling transferred commodities from major central wholesale markets in big cities (Note 7). In the Kofu Municipal Local Wholesale Market, for instance, which was converted from a central wholesale market to a local wholesale market in 2011, a share of vegetables transferred from the Tokyo Metropolitan Market in the total turnover of vegetables in the Kofu Market has been continuously growing every year, reaching 32.6 percent in 2015 (See Figure 4). A similar trend can be seen in the Hamamatsu City Central Wholesale Market, where the share of

vegetables transferred from metropolitan wholesale markets significantly increased from only 2.2 percent in 1985 to as much as 16.7 percent in 2015 (See Figure 5).

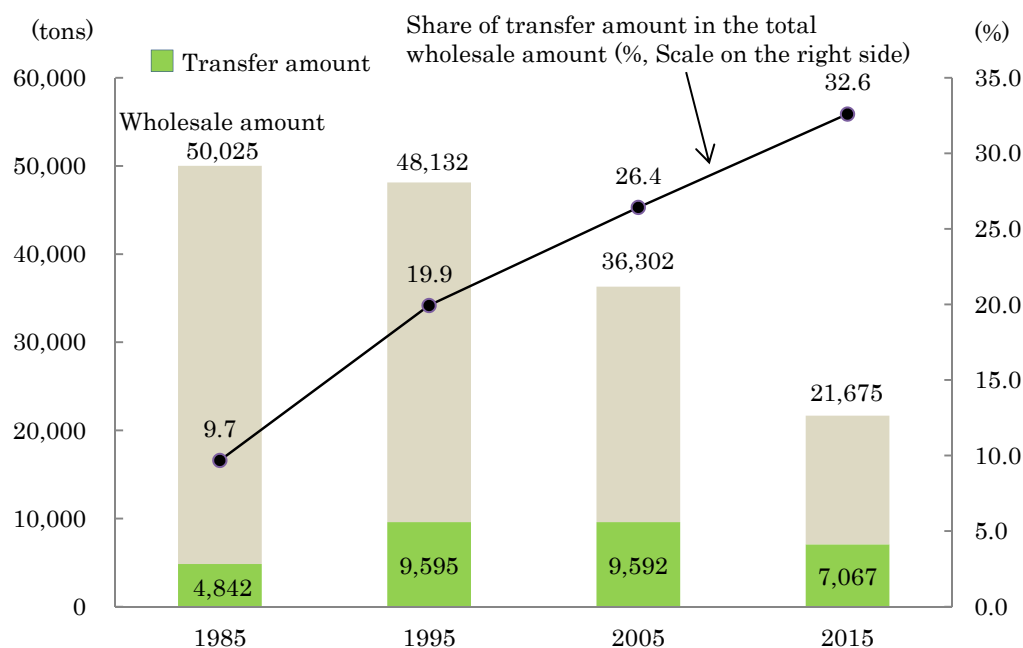
Table 4 Changes in the number of collection and shipment organizations of vegetables and Fruits

	collection and shipment org. (org.)	Amount of shipment (1,000 tons)	Amount of shipment per org. (tons)
1991	4,951	7,266	1,467
1996	4,063	7,007	1,725
2001	2,700	7,211	2,671
2006	1,470	5,807	3,950

SOURCES: Compiled from “Research Report on Collection and Shipment Organizations of Vegetables and Fruits”, MAFF.

(Note) The Collection and Shipment Organizations include multi-purpose agricultural cooperatives, single-purpose agricultural cooperatives, and voluntary associations of producers.

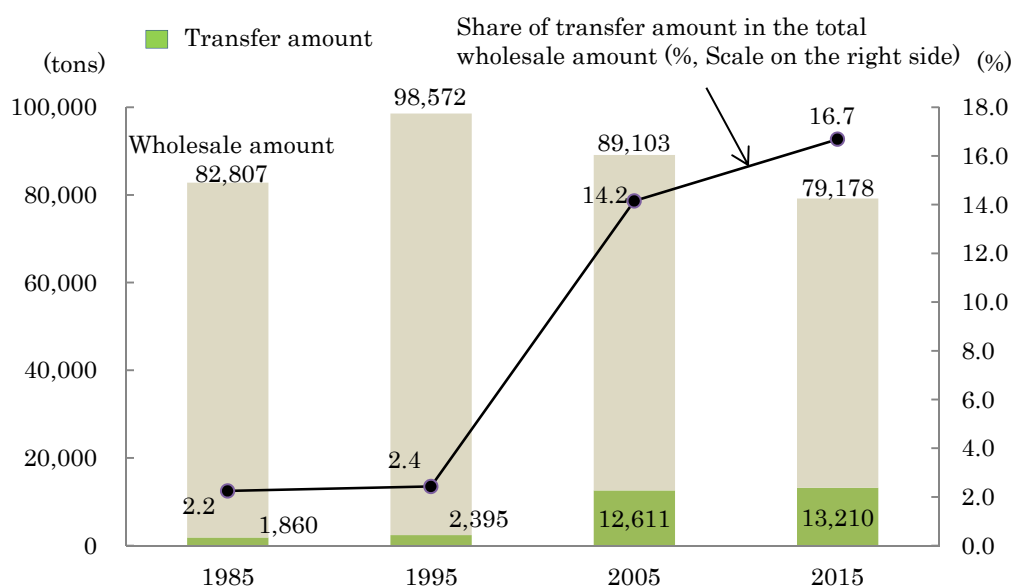
Figure 4 Share of vegetables transferred from the Tokyo Metropolitan Market in the total wholesale amount of vegetables in the Kofu City Local Wholesale Market



SOURCES: Compiled from “Research Report on Wholesale Markets of Vegetables and Fruits”, MAFF.

(Note) Amounts before 2005 show those in the Central Kofu City Wholesale Market.

Figure 5 Share of vegetables transferred from the Tokyo Metropolitan Market in the total wholesale amount in the Hamamatsu City Central Wholesale Market



SOURCES: MAFF (See Figure 4).

In this way, a new distribution structure has come into existence, in which horticultural products are being supplied from large-scale production areas located in various part of Japan to local cities throughout the country via hub markets of the central wholesale markets in metropolitan cities as a linkage point between the production areas and the local markets. In other words, we can say that production areas of horticultural products have been growing their dependence upon these hub markets located in the metropolitan areas as their shipment destinations, while wholesale markets in local cities have been concurrently increasing their reliance on those hub markets as their suppliers of commodities.

**(Note 5)** In Fujishima (1986), the business conditions surrounding central wholesale markets in 1980s were analyzed as a wide-area consumption market system.

**(Note 6)** In Hosokawa (1993), the new marketing structure emerging in 1990s was analyzed as a general market system of the information-initiative type. In addition, information arranged in Sugimura・Sakauri (2013) is easier to understand. However, the general market system of the information-initiative type is a derivative version of the collection and distribution market system that was discussed in Yamaguchi (1974) and Kawamura・Yuzawa・Mitoro (1977) in the 1970s.

**(Note 7)** For more details, see author's paper (ICHINOSE, 2004).

### 3. Main points of the amended Wholesale Market Act

In this section, contents of the latest amendment of the Wholesale Market Act will be summarized. The amended Wholesale Market Act is composed of 19 articles in 6 chapters, which have been considerably more simplified than the current Wholesale Market Act consisting of 83 articles in 7 chapters. Amendments of the Act basically reflect contents of the “Proposals for promoting the reform of distribution structure including the wholesale market” (hereinafter referred to as the “Proposals”) publicized by the Working Group on

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Agriculture and Forestry of the governmental Council for Promotion of Regulatory Reform and other relevant organizations on November 24, 2017, except a handling of “Prohibition of Entrustment Refusal” in the central wholesale markets. To put it simply, a key point of the Proposals was to minimize involvement of the national government in wholesale markets (Note 8). Main points of the amended Act will be summarized in the following paragraphs.

**(Note 8)** In the Proposals, there are the following descriptions: “The Wholesale Market Act should be amended toward a direction of minimizing involvement of the government in the markets”, “Across-the-board regulations involved by the government should be of minimal necessity required just to ensure fair and transparent transactions in the markets”, and “Involvement of the government and other agencies should be basically limited to one based only on applicable Acts and ordinances”.

### **3.1 Shift from an authorization and licensing system to a certification system**

Under the current Wholesale Market Act, an establisher of a central wholesale market must obtain authorization from the Minister of the Ministry of Agriculture, Forestry and Fisheries (hereinafter referred to as the “Minister of MAFF”) when the wholesale market is established. The local government of a city with a population of more than 200 thousand is exclusively entitled to establish the central wholesale market. When a wholesaler wants to operate wholesaling businesses in the central wholesale market, the wholesaler must obtain a license issued by the Minister of MAFF (See Table 5).

Under the amended Wholesale Market Act, on the other hand, the Minister of MAFF is to provide an applicant of establishment of a central wholesale market with certification of the market if scales of market’s facilities and others, which the applicant plans to construct, are larger than a certain level complying with requirements decided by the Minister. Qualification of the market establisher is not limited to local governments. Even private companies will be able to establish their central wholesale markets. When any wholesaler plans to participate in the wholesaling business in the market, moreover, the wholesaler will not need to obtain a license from the Minister of MAFF.

In the case of the local wholesale market, regulations will be also simplified under the amended Act. Under the current Act, both of a market establisher and a wholesaler respectively need to obtain a license from the prefectural governor. Under the amended Act, however, the governor is to provide the establisher with certification based on establisher’s application. The wholesaler will not need to obtain a license from the governor, either.

After the amended Act is enforced, namely, the national and prefectural governments will be involved only in the establisher of a wholesale market, and they will not be involved in wholesalers as before.

Table 5 Major revisions of the Wholesale Market Act

		Existing Act	Amended Act
Licensing and Authorization	Central market	- Establishers and wholesalers are respectively authorized and licensed by the Minister of MAFF.	Establishers are certified by the Minister of MAFF.
	Local market	- Establishers and wholesalers are respectively licensed by the prefectural governor.	Establishers are certified by the prefectural governor.
Establisher	Central Market	- Prefecture or a city with the population of more than 200 thousand.	Local governments, private corporations, the third sector, etc.
	Local market	- Local governments, private corporations, the third sector, etc.	
Regulation on transactions	Central market	- Establishment of selling and purchasing transaction methods - Prohibition of discriminatory treatment* - Prohibition of entrustment refusal* - Prohibition of purchases by wholesalers as transaction counterparties - Prohibition of sales to third parties in principle - Principle of concurrence of sales and logistics - Prohibition of intermediate wholesaler's direct purchases from other than wholesalers	Common transaction rules, and other transaction rules
	Local market	- Establishment of selling and purchasing transaction methods - Prohibition of discriminatory treatment*	Common transaction rules excluding prohibition of entrustment refusal, and other transaction rules

SOURCES: Compiled from Ministry of Agriculture, Forestry and Fisheries (2017), Hori (2018) and others.

(Note) The asterisk (\*) shows rules included in the common transaction rules provided by the amended Wholesale Market Act.

### 3.2 Transaction regulations to be observed

When establishers of wholesale markets make application for certification, they are required to submit to the national and prefectural governments their respective operational rules which must stipulate transaction rules to be observed by themselves. The transaction rules to be observed by the establishers are made up of two parts: common transaction rules to be applied to every wholesale market in the country, and other transaction rules which can be decided through consultation among stakeholders of respective wholesale markets.

The common transaction rules provide (1) publication of buying and selling transaction methods, (2) prohibition of discriminatory treatment, (3) prohibition of entrustment refusal (applicable only for central wholesale markets), (4) establishment and publication of price settlement rules, (5) publication of transaction conditions, (6) disclosure of transaction results, and (7) publication of other transaction rules.

Accordingly, the common transaction rules do not include regulations concerning sales to the third parties, intermediate wholesaler's direct purchases from production areas, and concurrence of sales and logistics that are all prescribed by the existing Wholesale Market Act. To maintain these regulations after the amended Act is enforced, therefore, establishers of the respective markets will be required to decide and publicize these regulations under the other transaction rules through consultations among their



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stakeholders.

In short, what the government continues to be involved in the transaction rules of the wholesale market is only the common transaction rules after the amended Act is enforced. The government will not be involved in any transaction rules other than the common rules and provide greater autonomy to respective markets.

### **3.3 Narrowing difference between central wholesale markets and local wholesale markets**

Both of central wholesale markets and local wholesale markets are to be almost equally treated under the provisions of the amended Act concerning proceedings for establishment of a wholesale market and regulations of business transactions (Note 9). Only two different treatment will remain between central markets and local ones: certification to be provided to the central and local markets respectively by the Minister of MAFF and prefectural governors, and the presence or absence of a provision concerning the prohibition of entrustment refusal in the common transaction regulations.

When the amended Act is enforced, moreover, a wholesale market with a wider area of facilities than a certain level is to be certificated as a central wholesale market, while a market with a less area of facilities than the level is to be certified as a local wholesale market. Since the attributes of a market establisher is not included in conditions of the certification, wholesale markets established by public bodies and those markets opened by private organizations are to be equally treated under the amended Act.

**(Note 9)** Article 14 of the amended Wholesale Market Act provides that the provision concerning the central wholesale market shall apply mutatis mutandis to the local wholesale market by replacing the Minister of Agriculture, Forestry and Fisheries with a prefectural governor.

### **3.4 Evaluation on the amended Act by experts**

Since the text of the amended Wholesale Market Act was publicized, experts have expressed various views including arguments for and against the Act. At a symposium on the Wholesale Market Act (Note 10) in which the author participated, for instance, the following opinions were expressed.

Some experts presented affirmative views saying, “If diversification of the wholesale markets further advances, producers will be able to broaden their options of selecting shipment destinations for their products”, “As the wholesale markets can handle non-fresh food items like rice and processed foods as well, the markets will enhance their convenience for users”, and “If the wholesale markets utilize their lands other than those used for market facilities and diversify their revenue sources of the market establishers, the markets are expected to reduce their facility-use fees paid by wholesalers, which will lead to a decline in their consignment commission rate”.

Other experts, on the one hand, made negative comments saying, “Under the amended Act, public nature of wholesale markets or their function as a part of social infrastructure will be weakened”, “Legal grounds for tax investment by local governments to operate public wholesale markets might be shaky”, and “Wholesalers may increasingly become wholesale dealers, merchant middlemen, or commercial capitalists just as before the Central Wholesale Act was enacted”.

**(Note 10)** Special Open Symposium held by the Agricultural Marketing Society of Japan on March 30, 2018. One of information materials distributed at the Symposium is the Agricultural Marketing Society of Japan (2018).

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## 4. Wholesale markets and public sectors in the European Union (EU)

Quite a few experts and persons involved are concerned that public functions played by wholesale markets will not be able to be maintained as they have been played in previous years, since the amended Act makes it possible even for private corporations as well as for local governments to establish central wholesale markets (Note 11).

In this context, wholesale markets in major countries of the European Union will be introduced in this section as examples of contrast with Japan to consider how respective public sectors like governments and related agencies have been involved in management of their wholesale markets from a viewpoint of wholesale markets being as public infrastructure by referring to existing documents and other information materials.

**(Note 11)** Refer to Mikuni (2018) and Niyama (2018), for instance. At the question-and answer session with unsworn witnesses held by the Committee on Agriculture, Forestry and Fisheries of the House of Representatives on May 23, 2018, several witnesses expressed similar concerns. For further details, see the Japan Agricultural News (2018b).

### 4.1 Great involvement by public sectors

As a few huge retail corporations in an oligopoly purchase vegetables and fruits directly from producers in EU countries, some experts (Note 12) regard a function played by the wholesale markets in those countries as small, which are located between huge corporations and producers. To the contrary, other experts believe that a lot of things can be learnt from EU's wholesale markets to revitalize Japanese wholesale markets (Note 13).

To go straight to the bottom line, we can say that public sectors in major EU countries have also played a function as significantly as in Japan or a greater role in some cases in establishing wholesale markets as well as in consolidating respective legal frameworks for those markets.

Wholesale markets are regarded as public goods in Spain and France, in which respective public sectors have taken the initiatives in establishing wholesale markets in many parts of these countries.

In Spain, the leading role was played by MERCASA (Mercados Centrales de Abastecimiento, S.A.), a state-owned enterprise that was set up by the Spanish government in 1966 to improve the distribution of fresh foods. MERCASA established a joint venture at each state with state and local governments, which venture opened wholesale markets in the states (Note 14). In Spain, namely, public enterprises are playing a role in both establishing and managing the wholesale markets. (See Table 6).

In France, a legislative act, corresponding to Japan's Wholesale Market Act, was enacted in 1953, under which a network of wholesale markets was developed throughout the country. The wholesale markets in France were established by SEM companies (Société d'Économie Mixte or Mixed Enterprise Company) in many cases, which are equivalent to so-called the third sectors in Japan. For example, Rungis Wholesale Market, the largest wholesale market in Europe as well as in France, was also established by Semmaris that is one of the SEM companies. Majority of the share capital of Semmaris has been invested by the French government, while the rest has been done by the Paris City government, the prefectural government of the Val-de-Marne department and wholesalers involved (Note 15). Almost 80 percent of the Semmaris' shares are held by public sectors, which is considered to have strong public-enterprise type characteristics, although it is regarded as the third sector.

Table 6 Wholesale markets in major countries of the European Union

Country	Characteristic features of wholesale markets
Spain	<ul style="list-style-type: none"> <li>- Wholesale markets are regarded as public goods playing public functions of ensuring transparency of transactions, food safety etc.</li> <li>- For the purpose of improving distribution of fresh foods, the Spanish government established a state-owned enterprise called MERCASA in 1966, which has been playing a core role in establishing wholesale markets in the country.</li> <li>- Joint ventures, in which MERCASA, state governments and city governments jointly invested, have established wholesale markets at 22 places in the country.</li> <li>- According to the estimation made by MERCASA, 65 percent of vegetables and fruits consumed in Spain are distributed through the wholesale markets.</li> </ul>
France	<ul style="list-style-type: none"> <li>- Wholesale markets are considered as public goods.</li> <li>- Under the Act enacted in 1953, wholesale markets have been developed into a network of the markets contributing the national interests of France.</li> <li>- The Act aims at simplifying the distribution channel to reduce the costs as well as at improving the quality of commodities by managing the distribution process.</li> <li>- In many cases, the wholesale markets in France have been established and managed by SEM (Société d'Économie Mixte or Mixed Enterprise Company), shares of which are held by the national government, governments of departments, city governments, and transaction operators.</li> <li>- The Rungis Market in Paris ranks the largest wholesale market in Europe.</li> <li>- Semmaris is in charge of management of the Rungis Market.</li> <li>- Majority of the share capital of Semmaris has been invested by the French government, while the rest has been done by the Paris City government, the government of the Val-de-Marne department and wholesalers concerned.</li> <li>- The revenues of Semmaris consist mainly of rents paid by wholesalers and market entrance fees.</li> <li>- The revenues of Semmaris have been appropriated not only to capital investment, but also to repayment of funds borrowed from the national government when the market was constructed.</li> </ul>
The United Kingdom	<ul style="list-style-type: none"> <li>- The New Covent Garden Market established on British government-led initiative is a wholesale market located in London, which is mainly handling horticultural products.</li> <li>- Other items of commodities are handled in a wholesale market established on London City government-led initiative.</li> <li>- Billingsgate Wholesale Market handles mainly marine products, while Smithfield Wholesale Market is engaged in transactions of meats and other foodstuffs.</li> </ul>
Germany	<ul style="list-style-type: none"> <li>- Wholesale markets in Germany have been established by various bodies such as (1) city governments, (2) joint ventures of city governments and wholesalers, (3) wholesalers, and (4) cooperatives organized by wholesalers.</li> <li>- The three largest-scale wholesale markets are located in cities of Hamburg, Munich and Stuttgart.</li> </ul>
The Netherlands	<ul style="list-style-type: none"> <li>- Rotterdam Spaanse Polder Wholesale Market was established by the government of Rotterdam city.</li> <li>- The revenue of the Rotterdam city from the wholesale market is composed mainly of rents paid by wholesalers and entrance fees paid by vehicles entering the market.</li> <li>- The revenue of the city is mainly invested to renewals of buildings and equipment of the market.</li> </ul>

SOURCES: Compiled from Louw et al. (2006), Cadilhon et al. (2003), Website of MERCASA, and Website of WUWM.

Wholesale markets established by public sectors are also located at several major cities in the United Kingdom, Germany and the Netherlands. In UK, for instance, there are New

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Covent Garden Market established on British government-led initiative, Billingsgate Wholesale Market and Smithfield Wholesale Market, both of which were opened under the leadership of respective city governments. In Germany, they have not only wholesale markets established by public sectors, but also markets opened by wholesalers or cooperatives organized by wholesalers. Although the Netherlands is famous for existence of agricultural cooperatives specialized in operation of wholesale markets (Note 16), there are also wholesale markets established by city governments such as Rotterdam Spaanse Polder Market.

**(Note 12)** According to Kobayashi et al. (1995), “Previous roles played by wholesale markets have been diminishing, since large-scale super markets established their respective big inland depots or collection and distribution centers in suburban areas of cities to operate a supply system of providing consumers with horticultural products and food items, which are collected, assorted and packed at the inland depot, by delivering those commodities to retail chain stores under their control”. (p.49)

**(Note 13)** The Nikkei (2017) pointed out that central and local wholesale markets operated by local governments in Japan should refer to know-hows of Rungis Wholesale Market and others managed in the third sector system in France which have been considerably increasing their amounts of transactions.

**(Note 14)** MERCASA, for instance, set up a joint venture named MERCABARNA with the government of Catalonia and the Barcelona city government, which established a wholesale market in the city of Barcelona.

**(Note 15)** According to Louw et al. (2006), detailed ratios of investments for the Semmaris’ capital fund of 4.95 million euros are as follows: 56.85 percent of the French government, 16.50 percent of the Paris city government, 7.0 percent of the prefectural government of the Val-de-Marne department, 5.76 percent of trust companies, and 13.89 percent of wholesalers and others.

**(Note 16)** These agricultural cooperatives include Venlo-based Royal ZON in the southeastern Netherlands, Barendrecht-based Greenery Cooperative in the southwestern Netherlands, and others.

## 4.2 Examples of European wholesale markets with their transaction methods being decided in a local government’s ordinance

Some of public sectors in EU major countries have been involved in development of wholesale markets not only in terms of hardware including establishment, maintenance and management of their buildings and other facilities as mentioned above, but also in terms of software such as development of a system providing for their transaction methods and others.

In Spain, the transaction methods of wholesale markets are decided in ordinances of local governments. The ordinance of the Barcelona city government regarding MERCABARNA, an establisher of the wholesale market, has some provisions prescribing prohibition of wholesaling of goods located outside of the market, prohibition of sales to the third parties, etc. (Note 17).

In France, the national government designated areas within a radius of 20 kilometers as an exclusive zone surrounding the Rungis Wholesale Market, recognizing it as one of important wholesale markets that make contribution to the national interests. In this exclusive zone, transactions outside of the Wholesale Market have been prohibited. Because of this regulation, the Rungis has been reportedly developed into the largest wholesale market in Europe as is known today (Note 18).

**(Note 17)** Refer to Densley and Sanchez-Monjo (1999). “Prohibition of wholesaling of goods located outside of the market” is prescribed in the provision of the ordinance, Article 35 stating, “Selling may only take place in the areas reserved for that purpose”, and “prohibition of sales to the third parties” is prescribed in the provision of the ordinance, Article 37 stating, “Licensed sellers in the market will refrain from selling to anyone who is not duly licensed to buy”.

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**(Note 18)** Refer to Cadilhon et al. (2003). After detailed explanation on regulations regarding the exclusive zone is given, this book provides an overall evaluation of the Rungis stating, “In summary, the flourishing situation of the Rungis wholesale market can be explained mainly by a strong proactive government policy to protect the activities of small and medium wholesalers and retailers”.

### 4.3 Admission fees also as a part of establisher’s revenue sources

In Japan, establishers of wholesale markets do not collect facility use charges from participants in wholesaling to purchase a stock of goods as well as from licensed wholesalers visiting the market, although the facility use fees are collected from wholesalers, intermediate wholesalers, and related business operators based on their respective sales and use spaces.

In major countries of EU, on the contrary, there are some examples (Note 19) of wholesale market establishers collecting entrance fees even from business persons visiting the market to purchase commodities at a tollgate set up at the entrance gate, in addition to rents from wholesalers and other business operators in the market which correspond to facility use fees in Japan. From a viewpoint of sharing expenses among beneficiaries to maintain the wholesale markets of public goods, the market establishers appear to have the validity of charging purchasers for their entrance as well.

In addition, revenues of the market establisher, including the entrance fees, have been appropriated to renewals of equipment in the market and repayment of funds borrowed from the national government and other agencies when the market was constructed.

**(Note 19)** According to the website of the Rungis Wholesale Market, for instance, a fee of 10 entrances costs 120 euros per small-size vehicle weighing less than 3.5 tons and 150 euros per large-size vehicle weighing more than 3.5 tons in the normal rate period.

## ■ Afterword

### A.1 Enforcement of Japan’s Wholesale Market Act and prospect for the future

Following the enactment of the amended Wholesale Market Act, the Ministry of Agriculture, Forestry and Fisheries (MAFF) is expected to promulgate its ordinance around the autumn of 2018. After that, MAFF plans to accept application for certification of wholesale market establishers and complete certification works in 2019. The full-fledged operation of the new wholesale market system under the amended Act will reportedly start around the summer of 2020.

As the new system does not yet work, consideration on its possible influences to be exerted on operation of wholesale markets remains a matter of conjecture. Important points to be focused, however, will be supposedly diversification and public nature of wholesale markets to be newly certified which were both mentioned above in this paper.

Immediately after the amended Act is enforced in 2020, nevertheless, dramatic changes are not expected to take place in such forms as successive establishments of central wholesale markets to be opened and operated by private corporations or fluctuation of consignment commission rates, if we consider the fact that any remarkable change was not brought about in a short period just after the former Wholesale Market Act was amended to introduce flexibility into regulations on consignment commission rates in 2004 and other changes.

From a medium- to long-term perspective, however, there is a possibility that some wholesale markets will begin lowering consignment commission rates by curbing their

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business costs with an automated distribution system in the market as well as with implementation of ICT techniques like FinTech. Other wholesale markets are also expected to possibly raise their commission rates by providing agricultural producers with services such as commodity development supports for product assortment and offers of proposals for effective logistics solution. Furthermore, a part of wholesale markets will possibly decide to introduce a new system of charging shippers of products for additional expenses to be occurred in respective processes from logistics to preservation of products at a predetermined temperature, selling, price settlement and packaging, replacing today's system of charging the shippers for a total package of these services in the wholesale market.

Production areas might be able to receive benefits from diversified wholesale markets and offers of various consignment commission rates, because a range of their choices for shipment destinations is expanded. This means that respective production areas will be tested whether they have an ability to make the best choice of the most advantageous wholesale market for their areas at their own risk to increase agricultural incomes of producers by carefully examining and comparing transaction conditions for selling and buying that every wholesale market is obliged to disclose.

## A.2 Public sectors and wholesale markets

Many of local governments operating wholesale markets are expected to continue their involvement in management and improvement of their markets even after the amended Wholesale Market Act is enforced (Note 20). In this background, there seems to be a strong sense of responsibility held by the Japanese local governments which commit themselves to “playing a public role in providing residents with stable supplies of fresh foods”.

This sense held by the Japanese local governments seems to be common to the policy of wholesale markets in major countries of EU, which were considered in the above section as examples of contrast with our country, although we fully understand that those EU countries greatly differ in the population, people's diet, and agricultural structure from Japan. Characteristic features of the wholesale market policy reviewed in the above section can be concisely summarized as follows: “In major countries of EU, where wholesale markets have been regarded as public goods, public sectors have been playing a leading role in establishment of those markets and development of regulations on transactions”. To maintain the public role of stable supplies of foods, the author believes that the national and local governments in Japan will be continuously required to be deeply involved in wholesale markets in the future as well.

**(Note 20)** According to the Japan Agricultural News (2018a), for instance, majority of local governments, which have established central wholesale markets, intend to be continuously engaged in management of their respective markets after the amended Wholesale Market Act is enforced.

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