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# **BRAZILIAN FRUIT TRADE: THE EXPORT AGENT TRANSACTION ARRANGEMENT**

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## **Brazilian Fruit Trade: The Export Agent Transaction Arrangement**

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### **1. ABSTRACT**

This study analyses the fresh fruit trade between the United Kingdom and Brazil using Transaction Cost Economics as the main theoretical framework. Particular attention was given to the technical aspects that affect commercial strategies employed by fruit traders. The study has disclosed the Export Agent Transaction Arrangement employed by Brazilian fruit exporters and British fruit importers in order to make viable their commercial activities.

### **2. INTRODUCTION**

TCE is a scientific construct which has been developed by a great number of scholars with varying backgrounds and objectives. Some of these researchers have contributed to the enrichment of the theory with the creation and use of new constructs capable of analysing the complexity of economic transactions. Coase (1937) has achieved considerable merit in the development of the theory because of his early proposal to see markets and firms as alternative governance structures. Coase (1937) pointed out that there are costs involved in transactions in the market and when the market transactions are costly, institutions matter. The more common market transaction costs are: the cost of finding the relevant prices; the costs of writing transaction contracts; and the costs of reaching agreement. If the sum of all these costs is high, the alternative may be keeping the transaction within a single organisation. In this case all the problems of the price system are replaced by the co-ordination mechanism of a firm. Conversely if the co-ordination mechanism is too costly the transactions will be

executed at lower cost in market type negotiations (North, 1990; Douma and Schreuder, 1998; Coase, 1978).

Ronald Coase in his historical article (The Nature of the Firm) published in 1937, observed “as a firm gets larger, there may be decreasing returns to the entrepreneur function, that is, the costs of organising additional transactions with the firm may rise. Naturally a point must be reached where the costs of organising an extra transaction within the firm are equal to the costs involved in carrying out the transaction in the open market, or, to the costs of organising by another entrepreneur. Secondly, it may be that as the transactions which are organised increase, the entrepreneur fails to place the factors of production in the uses where their value is greatest, that is, fails to make the best use of the factors of production. Again, a point must be reached where the loss through the waste of resources is equal to the marketing costs of exchange transaction in the open market or to the loss if the transaction was organised by another entrepreneur. Finally, the supply price of one or more of the factors of production may rise, because of the other advantages of a small firm are greater than those of a large firm. Of course, the actual point where the expansion of the firm ceases might be determined by the combination of the factors mentioned above. The first two reasons given most probably correspond to the economics phrase of diminishing returns to management.”

Since the initial contribution of Ronald Coase many other authors have added to the TCE theory. Most of the contributions were centred on the two main poles of the transaction costs: market type transactions and hierarchical type transactions.

Market type transactions are related to discussions about contracting, hybrid form of transactions and information problems. Hierarchical type transactions on the other hand are directly connected to topics such as physical capital, vertical integration, employment of labour and organisational issues.

As the theory around TCE evolved, it became clear that the ideas of Williamson are at the epicentre of the discussions. The Williamsonian analysis of the structure of organisations, for instance, gives rise to the debate about the reasons behind the evolution of a small organisation into a multidivisional structure or even a multinational organisation. In the same manner he has clarified discussions about market structure (Williamson, 1985).

According to Pugh and Hickson (1996, p.207) Williamson conceived that “markets and hierarchies are alternatives for conducting transactions. So transactions are brought within the hierarchical structures of organisations when the market mode is no longer efficient. For example, mergers or take-overs bring into a single organisation contracting parties whose transactions will then be regulated by the internal rules of a hierarchy and not by the rules of a market. Or organisations are set up to transact within themselves, business that might alternatively have been done by separate parties contracting between themselves in market terms”

### **3. METHODS**

International fruit trade is especially complex, mainly because of the fragility of the merchandise and the multitude of organisations operating in the sector. Three distinct research techniques were used to investigate the Anglo-Brazilian fruit trade: secondary data analysis, surveys and interviews.

The secondary data gathering in Brazil and the UK aim to describe the technical processing and logistical sequences used in the international fruit trade. Two questionnaires were developed. The first was applied with Brazilian fruit exporters and the second was applied with British fruit importers.

The Diversity of Transaction Arrangements Research Sequence was a method especially developed to guide the interviews with fruit exporters and importers. Its main intention was to characterize the Transaction Arrangements in the international commerce of fruit.

The characterization of the predominant transaction arrangements present in the Anglo-Brazilian fruit trade was based on the results of 34 interviews conducted in Brazil and the UK. Two indispensable steps served as the basis for the characterization: data preparation and data analysis (Drever, 1997). In the data preparation stage the main facts obtained in each interview were transcribed. The information was then coded according to its relation to concepts used as a framework; finally at this stage a summary of the main ideas of each interview was produced.

The data analysis stage was concerned mainly with the development of categories. Categories were developed for individual organisations and other categories for groups of interrelated organisations.

The categories for organisations took as their point of reference the technical activities performed by each organisation within the product cycle (trading sequence).

The development of categories for groups of interrelated organisations observed the types of market transactions they had developed.

### **Graphical Representation of Transaction Arrangements**

Graphical illustrations or representations almost always have the advantage of simplifying and better focusing the discussion of a specific topic. They create a visual representation of a concept or phenomenon making the learning process easier for those who want to understand the subject under analysis.

In this research a method was developed of representing transaction arrangements graphically.

## **4. RESULTS AND DISCUSSION**

### **The Export Agent Transaction Arrangement**

One export arrangement used by Brazilian fruit exporters can be called the Export Agent Transaction Arrangement (E-ATA). In this commercial arrangement the export activities are organised by an agent.

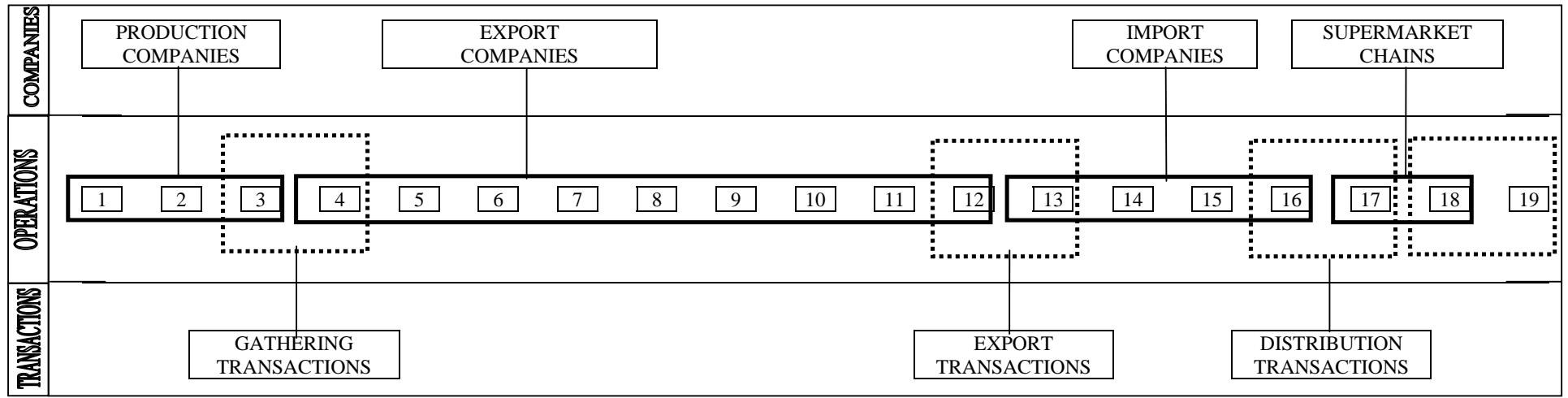
The interviews conducted in Brazil indicate that this is a common arrangement adopted by the organisations present in the Brazilian fruit export industry. Four different organisations exporting four different types of fruit (melon, mango, grapes and papaya) revealed that they adopt E-ATA as their main scheme to export fruit.

It was also found that Integrated Production-Export Companies also adopt E-ATA as an alternative arrangement to export fruit. Executives in five of these organisations declared that

their companies also export fruit produced by specialised growers. These five executives also affirmed that E-ATA forms only a small part of their fruit trade, an alternative used only to complement their own fruit production.

Figure 1 gives a graphical representation of the arrangement mentioned.

**Figure 1 - Export Agent Transaction Arrangement**



**NOTES:**

- |                             |                                      |
|-----------------------------|--------------------------------------|
| 1. Pre-harvest activities   | 11. Loading: ship or aeroplane       |
| 2. Harvesting               | 12. Long distance transport          |
| 3. Short distance transport | 13. Unloading: ship or aeroplane     |
| 4. Receiving operations     | 14. Transport to distribution centre |
| 5. Selection and Grading    | 15. Processing                       |
| 6. Treatments               | 16. Packing                          |
| 7. Packing and labelling    | 17. Distribution                     |
| 8. Pallet construction      | 18. Retailers Shelves                |
| 9. Cooling                  | 19. Final Customer                   |
| 10. Storage                 |                                      |

It can be seen that E-ATA is composed by a hierarchy (fruit producers) followed by a market transaction (fruit gathering activities) followed by a hierarchy (agent exporters) that is finally followed by a market transaction (export activities). Each one of these stages is presented and discussed in the following sections (Figure 1<sup>1</sup>).

### The Fruit Production Companies

Fruit production companies are the basis of E-ATA. Agent exporters revealed that their suppliers show several characteristics of a fruit grower who produces also for the Brazilian internal market. The main difference is that part of their productive effort is guided by the specifications posed by fruit importers.

Table 1 shows the main characteristics of fruit growers that supply agent exporters. It can be seen that they produce fruit both for the internal and external market. These fruit growers keep a few assets exclusively dedicated to export activities: specialised fruit plantations and dedicated fruit production processes.

**Table 1 – Fruit Production Organisations Transaction Characteristics.**

TRANSACTION TOPIC	CHARACTERISTICS
Objective	Produce fruit to the internal and external markets.
Transaction type	Hierarchical transaction
Specialised assets	Fruit plantation; Dedicated fruit production processes.
Integrated activities	Pre-harvest; Harvesting; Short distance transport.
Transaction counterpart	Export Agents; Wholesalers and retailers in Brazil.
Quality Management Strategies	Observance of the product specification; Processes quality control; Production environment monitoring; Integrated logistics; Alliances with Export Agents.

Source: Field research data.

Only three activities that are part of the fruit export cycle are integrated by these specialised fruit producers, they are: Pre-harvest (whole production cycle), harvest and short distance transport. All the other activities that are components of the fruit export cycle are performed by Export Agents.

The Fruit Production Companies are also zealous about quality management. The interviewed agent exporters mentioned that their suppliers adopt the following measures to guarantee acceptable levels of quality in the fruit export trade:

- Observance of the product specification – During the fruit growing stage, producers need to adopt yielding techniques capable of delivering a fruit, which incorporate all the requirements put by Export Agents. For example, if a determined insecticide is restricted in a specific destination market. The fruit growers need to find acceptable alternative techniques to control insects.

<sup>1</sup> The diagram was prepared according to the guidelines of the “Graphical Representation of Transaction Arrangements”, CARVALHO, 2006.

- Quality control during the production stage – It was said that fruit growers are required to obey previously specified levels of quality during the execution of different processes which are components of the fruit production phase. Harvesting was pointed as the period which requires a more meticulous quality control being necessary to inspect the ability of the people who is harvesting, the adequacy of the equipment used and the efficiency of the harvesting sequence adopted.
- Production environment monitoring – Fruit Production Companies are required to synchronise their activities with the post-harvest processing executed by Export Agents. In order to do so both sides need to know in advance, the quantity of fruit that will be produced, the characteristics of the fruit that will be harvested (easily affected by environment factors) and when the fruit will be ready for harvesting.
- Integrated logistics – Fruit producers are in charge of managing the transport from the production fields to the packinghouses of the Export Agents. The logistics need to be integrated since the exporters have a limited capacity of fruit processing and storage. The four interviewed managers affirmed that physical injuries are especially common during the transport from the fields of production to the packing-house therefore it is important to guarantee satisfactory transport conditions.
- Strategic alliances with agent exporters – Since the fruit production companies are dedicated in the growing activities only, they do not have the necessary resources or the specialized knowledge to export fruit directly. The alliances with agent exporters allow the producers to reach the international market with relatively low investment and risks. The strategic relationship also helps to establish the parameters for quality management.

Agent exporters also informed that their suppliers are not totally dedicated to producing fruit for export. In most cases these fruit production companies also deal with wholesalers and retailers that operate in the Brazilian internal market.

### The Gathering Transaction

The aim of the gathering transaction is to select and accumulate fruit that has the required attributes for exporting. As can be seen in Figure 1, the gathering transaction happens between specialised fruit producers and Export Agents. The last only assume responsibility for the fruit when it is delivered at the packinghouse. Table 2 gives the main characteristics of these market type transactions.

**Table 2 –Characteristics of the Fruit Gathering Transaction**

TRANSACTION TOPIC	CHARACTERISTICS
Objective	Commercialise fruit in the international market.
Transaction type	Market transaction
Seller	Fruit producer
Buyer	Agent exporter
Negotiation concerns	Quality management strategies; Price; Fruit volume; Regularity of supply; Period of supply.



Predominant type of contract	Incomplete long term contract,;
Quality Management Strategies	Obligational contracting

Source: Field research data.

Four interviews were conducted among organisations that perform Gathering Transactions. They showed a preference for sustaining durable relationships with their suppliers. In these relationships five different issues are negotiated: price, quality management strategies, fruit volume to be traded, regularity of supply and period of supply.

From the negotiation concerns mentioned, price was pointed out as the one that causes most disputes. This situation is probably a result of the price instability in the Brazilian internal market. It was informed that when prices in the internal market are high, fruit producers tend to neglect their relationships with agent exporters.

In most of the cases Export Agents reported that they buy their fruit on a commission basis, using informal contracts that can be described as Obligational Contracting.

Since the Obligational Contracting aims long-term relationships both sides (producers and exporters) are committed to find ways to improve the commercial relationship. It was said that mutual visits are common and the information exchange frequent. This continual interaction makes possible the transference of technologies and managerial expertise between both sides.

The Export Agents showed the preference for paying with a fixed price however they can also buy fruit on a commission base.

### The Export Agent Companies

Export Agents are the dynamic part of E-ATA. These organisations buy fruit from specialized producers in Brazil and sell them to importers overseas. Figure 6.2 shows the graphical representation of these companies in the fruit export cycle.

It was possible to interview four traders who could be characterized as Export Agents. These organisations showed a range of characteristics in common (Table 3).

**Table 3 – Export Agent Transaction Characteristics.**

TRANSACTION TOPIC	CHARACTERISTICS
Objective	Buy fruit in Brazil and trade them to the international market.
Transaction type	Hierarchical transaction
Specialised assets	Packinghouses; Human assets; Dedicated fruit logistics; Dedicated post-harvest processing; Cooled storage facilities.
Integrated activities	Fruit receiving operations; Fruit treatment; Selection and grading; Packing and labelling; Pallet

	construction; Cooling; Storage; Short distance operations; Contracting long-distance transport.
Transaction counterparts	Fruit producers in Brazil and Fruit importers abroad.
Quality Management Strategies	Detailed product specifications; Quality control during the post-harvest processing; Production environment monitoring; Integrated logistics management; Strategic alliances with fruit producers; and Strategic alliances with fruit importers.

Source: Field research data.

Export Agents keep five main types of specialized assets:

- Packinghouses – These are fully equipped to prepare fruit for exports. As Export Agents trade in more than one product, their packinghouse needs to be more flexible to process various types of fruits and vegetables.
- Human assets – Export Agents employ professional buyers, post-harvest specialists and international trade experts. All these professionals develop the expertise necessary to export fruit.
- Dedicated fruit logistics – Export Agents need to coordinate two types of logistics. The first is related to the supply side. As Export Agents have multiple suppliers, it is necessary to guarantee that the produce will arrive at the packinghouse in a ordered manner otherwise fruit losses are likely to happen at the production fields or during the post-harvest processing. The second type of logistics coordinated by agent Export Agents is related to the demand side. In this case the management of fruit transport and storage is conducted in accordance with the importers needs.
- Dedicated post-harvest processing – As Export Agents shown to deal with multiple products it is necessary to harmonise the processing of various types of fruit at the same time. This is a complicated process, mainly because each type of fruit requires specific handling.
- Cooled Storage Facilities - The produce needs to be cooled and then stored until its dispatch to the destination markets. It happens that some fruit cannot be stored in the same place as other types of fruit. This is due to the fact that each type of fruit has different storage requirements (temperature or atmosphere composition). As a consequence Export Agents have to invest in storage facilities capable of receiving separate lots of fruit.

Nine activities are components of the fruit export cycle integrated by Export Agents: Fruit receiving operations; Fruit treatment; Selection and grading; Packing and labelling; Pallet construction; Cooling; Storage; Short distance logistics; and Contracting long-distance transport.

As can be seen most of these activities take place inside the packinghouse. Nevertheless a significant part of the Export Agents’ work is related to operations outside the packinghouses. For example Export Agents need to evaluate the quality of the fruit that they are intending to buy. It is a process that involves visits to suppliers and continuous negotiations. Another example is the interactions with fruit importers, in which buyers and sellers exchange information about the complete product cycle (production, trade and consumption).

The case of Exporter 1 (fictitious name) is presented in Box 1 It exemplifies various points previously discussed.

### **Box 1 – Export Agent**

Exporter 1 (E1) is based in Sao Paulo, the biggest business centre in Brazil. From the company's headquarters its executives coordinate trade activities in various fruit production regions in Brazil.

The interview was given by the general manager in his office and took place on 9 February 2000.

The company deals mainly with six different products: mango, papaya, ginger, figs, limes and avocados. E1 trade more than 1,000 tonnes of mangoes yearly, all the other products have an annual volume of trade smaller than 1,000 tonnes. The general manager informed that the company trade not less than US\$1,000,000.00 per year.

NAFTA was described as the main destination market for the E1 fruits. EU comes in second place and European countries not members of EU in third place. The company does not send fruit to Asia, Latin America, Oceania or Africa. Inside the European Union, E1's fruit goes to The Netherlands, Belgium (distribution countries), The United Kingdom, Germany, France, Spain and Portugal.

E1 can be characterized as an Agent-Exporter, mainly because it does not produce any of the fruit traded by the company. All the produce dealt in is obtained from specialized fruit producers.

Fruits and vegetables arrive at E1's packinghouses in transport contracted by the producers and coordinated by the company. The general manager revealed that three packinghouses are maintained by the organisation. The first is situated in Pernambuco State (mango production region). The second one is in Espirito Santo State (papaya production region) and the third packinghouse can be found in Sao Paulo State (various products).

All the post-harvest activities necessary to export fruit are executed in E1's facilities. The general manager justifies this choice saying that the firm need to guarantee quality in post-harvest processing. He affirmed that post-harvest processing problems do not turn up during the processing stage. Any injury only emerges when the produce arrives at the destination market.

By doing the post-harvest processing E1 has also a chance to better select the fruit that is going to be exported by the company. Among the fruit traded by the company, papaya was indicated as the most sensitive to post-harvest processing. The problems start at the production fields. It is difficult to choose the precise moment for harvesting papayas. If the fruit is harvested when physiologically immature, later it has little chance of developing the characteristic flavour of a matured papaya. On the other hand if fruits are harvested in an advanced stage of maturity it is likely that these papayas will not stand up to the post-harvest processing.

During the harvest operations it is also important to avoid contact of the fruit skin with the fruit's own latex. The latex can easily damage the fruit appearance.

Papayas have a highly sensitive skin, which can be easily damaged when the fruit is manipulated. Due to this problem E15 has instructed its suppliers to avoid any kind of brusque handling. Physical injuries in most of the cases open the door for post-harvest diseases such as anthracnose, black rot or phytophthora rot.

All these problems can develop during the production and harvest stages reinforces the need for E1 to maintain a close relationship with its suppliers. The general manager stated clearly that the policy of the company is to build a relationship of mutual confidence with suppliers. He emphasizes the need to induce strategic changes that will make both sides (producers and exporters) more competitive in the international fruit trade. To illustrate the point the example was given of a new variety of papaya, Solo Golden. E1 is trying to induce its suppliers to cultivate this new variety of papaya mainly because it produces fruit more suited for international trade.

At E1's packinghouses, papayas are received, selected, graded, treated, packed, labelled, cooled and stored. The fruit is maintained in refrigerated stores until time for transportation.

Aeroplanes are the long distance transport means used in the papaya trade. It is a costly solution that is unavoidable when account is taken of the high perishability of papayas. Transport by sea was considered previously, but the technology proved not to be viable.

The pallets of papayas are loaded into a refrigerated container that is then taken to the airport. Two airports are used in the papaya trade: the International Airport of Rio de Janeiro and the International Airport of Sao Paulo. The general manager revealed that the airports do not have an appropriate infrastructure for the fruit trade. He emphasized the fact that it is not possible to find refrigerated stores at these airports. This problem is only overcome by keeping the refrigerated containers plugged into the electricity supply system at the airports.

The general manager also raised another problem connected to logistics, the lack of regularity of the air-transport companies. This is a difficulty that derives from the fact that the Brazilian papaya trade is still relatively insufficient to justify the allocation of regular cargo flights departing from Brazil.

Finally on logistics, there was mention of the delays caused by the cargo inspections at the airports. According to the Brazilian Export legislation the Ministry of Agriculture is supposed to inspect each fruit shipment send abroad. It happens that there are not enough inspectors to guarantee prompt inspection, as a consequence delays occur.

When the interview turned to the issue of the relationship with fruit importers, the general manager revealed that E15 aim to establish partnerships with its clients. Both sides of the papaya international trade weekly exchange information about fruit production and market tendencies. Mutual visits are also regularly paid.

The final issue tackled in the interview was the type of contracts used by papaya exporters and importers. The executive indicated that papaya importers prefer to use commission contracts.

As the interview ended the general manager commented that Brazil is already one of the main papaya exporters in the world and the country has the potential to produce and export considerably more. E15 is positioning itself to get a significant share of this growing business.

Source: Field research data.

Three other organisations (exporting melons, grapes and mangoes) revealed that they do adopt the same pattern of transactions as E1. The main difference between them and E1 comes from the fact that none of these three companies use air transport in their fruit trade.

Five Integrated Production-Export companies revealed that they complement their trade exporting business by acting as Export Agents. However they do so only when their own fruit production is not sufficient to supply the importers demand.

### Quality Management Strategies

The interviews with the firms acting as Export Agents revealed that the following strategies are adopted by them in the management of quality:

- Detailed specifications – the four Export Agents informed to follow specifications established by their clients abroad. The Export Agents are also in charge of transmitting these specifications to their fruit suppliers.
- Quality control during the post-harvest processing – The interviewees affirmed that their companies need to be especially zealous to control fruit quality during the post-harvest processing stage. This happens mainly because Export Agents do not have full quality control of the production and harvesting stages. It was said that it is crucial to eliminate those fruit which do not have all the necessary attributes for exporting.
- Production environment monitoring – Agent exporters mentioned that is necessary to maintain a clear understanding about fruit quality with their suppliers. It is also important the monitoring of the suppliers performance through the analysis of their fruit and also through periodical visits. Furthermore, Export Agents informed the need of monitoring their own production processes which includes: fruit selection, grading, treatment, packing, pallet consolidation, storage, and transport.
- Integrated logistics management – Four interviewed managers reported this activity as complex, since it is necessary to coordinate the fruit influx with their capacity of processing and storage. To maintain fruit quality during the transportation, Export Agents observed that is crucial to pack the fruit properly.
- Strategic alliances with fruit producers – Export Agents revealed the preference for organising alliances with their suppliers. They tend to select as transaction counterparts those fruit growers capable of producing large volumes of fruit which incorporate all the specifications posed by them. Two executives spontaneously mentioned the preference for those suppliers that also have an administrative system capable of detecting quality problems in advance.
- Strategic alliances with fruit importers – The interviewed managers expressed their preference for maintaining long term alliances with fruit importers in each destination market. They mentioned that are preferable those importers capable of buying large volumes of fruit. One Agent-Exporter also observed that it is important to maintain partnership with importers which have an advanced

managerial capability, being capable of bring positive innovations for the fruit trade.

### Export Transaction Characteristics

The objective of the export transactions organised by Export Agents is to sell in the international market the fruit gathered in Brazil. This market type transaction materializes only when the exported fruit arrives at the port in the destination market (Figure 1). However, before and after this moment, the negotiating parties (Export Agents and Importers) deal with several different issues.

Table 4 is based on the results of nine interviews conducted among organisations that adopt E-ATA to export their fruit. It shows that five different issues are discussed in the negotiations with importers: price; quality management strategy; fruit volume; regularity of supply; and period of supply.

**Table 4 – Export Transaction Characteristics.**

TRANSACTION TOPIC	CHARACTERISTICS
Objective	Commercialise fruit in the international market.
Transaction type	Market transaction
Negotiation concerns	Quality management strategy; Price; Fruit volume; Regularity of supply; Period of supply.
Seller	Fruit producer
Buyer	Agent exporter
Predominant type of contract	Obligational contracting

Source: Field research data.

Agent Exporters reported having less control over the quality issues, mainly because they rely on production by a third party. This is a factor that raises the level of uncertainty in the export transactions and affects negatively the relationships with importers. Agent exporters also informed that they predominantly adopt contracts with the characteristics of Obligational Contracting.

## 6 CONCLUSIONS

This study has analysed the fresh fruit trade between the United Kingdom and Brazil using Transaction Cost Economics as the main theoretical framework. Particular attention was given to the technical aspects that affect fruit quality and to the quality management strategies employed by fruit traders. The study has disclosed the transaction arrangements employed by Brazilian fruit exporters and British fruit importers in order to make viable their commercial activities.

The complexity and the diversity that can be found in the international fruit trade poses difficulties to any analytical effort. Transaction Cost Economics was selected mainly because it is a theoretical framework that allows the analysis of internal processes of both



organisations and interorganisational relationships. In addition TCE is a multidisciplinary approach that allows both qualitative and quantitative research techniques.

Export Agent Transaction Arrangement was shown to be an important scheme used by fruit exporters. The arrangement is composed of a hierarchy (specialized fruit producers) followed by a market transaction (fruit gathering activities) followed by a hierarchy (Export Agent) followed by a market transaction (export activities). The Export Agent Transaction Arrangement makes possible for one company to commercialise a more diversified group of fruit.

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