Evaluation of Externality Management Instruments in Marine Fisheries

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Abstract

New Zealand marine fishing activities create many types of environmental externalities, which by law must be internalised. Selection of best internalisation instruments can be aided by following a hierarchical decision process, which first screens the universe of instruments against implementation criteria to establish the feasible set. Instruments in the feasible set can be evaluated against a range of environmental, Treaty of Waitangi, economic, sociocultural and management criteria. This approach to selection can be formalised in decision support software to provide a useful tool for fisheries management agencies.

KEY WORDS - New Zealand, fisheries, externalities, Decision Support System

1. Introduction

New Zealand has the fourth largest exclusive economic zone in the world. In 1986 the quota management system was introduced to promote sustainable management of New Zealand's fishery resources. New Zealand was amongst the first countries to introduce individual property rights-based management on a universal basis. Even though the individual transferable quota system has been successful in a number of respects, one of the growing concerns during the last decade is environmental externalities associated with the activities of commercial fishing. Such concerns have led to a wider focus on the need for sustainable management of the marine environment within the exclusive economic zone. This is reflected in the purpose and principles of the Fisheries Act 1996 (Figure 1).

Environmental externalities from fishing comprise a range of diverse events: marine pollution from ship's discharges; bycatch of non-target fish species; damage and mortality to non-fish species; and destruction of fish habitat. Hughey et al. (2000) identified the New Zealand fisheries in which 'significant' externalities occur as:

- Any bottom dredging fishery on a non silt/sand substrate, e.g. oyster and scallop;
- Any bottom trawl fishery on a non silt/sand substrate, e.g. snapper and orange roughy;
- Long line fisheries where there is the presence of non target fish species or seabirds in high numbers at the same fishing water level, e.g. tuna;
- Mid water trawl fisheries where marine mammals occur in 'significant' numbers, e.g. southern squid; and
- Gillnet fisheries where dolphins are present, e.g. rig, other small sharks, and kahawai.

Generally, externalities can only be reduced at some cost and there is an economically optimal level of externality reduction where the marginal cost of externality reduction equals the marginal benefit from externality reduction (Pearce and Turner 1990). Internalisation

occurs when institutional change causes formerly external costs associated with fishing to be borne by the firm creating the externality. A key point is that fishers' behaviours or their fishing-related activities must change in order to avoid, remedy, or mitigate externalities.

This can occur if the firms creating the external costs take any of the actions listed below, resulting in reduced incidence of the externality creating behaviour:

- Reduce, stop, or change the pattern or timing of fishing in an area.
- Change fishing practices to reduce risks of: polluting, harming other species, or damaging the sea floor.
- Change behaviour to avoid catching non-target fish species, to reduce bycatch, and to reduce potential discards.
- Change behaviour once non-target species have been caught.
- Invest in activities such as stock enhancement or habitat creation to offset negative environmental effects.

The objective of this research, commissioned by the Ministry of Fisheries, was to develop a decision support system to assist the Ministry to select the best combination of 'instruments' for internalising the environmental externalities of commercial fishing. This paper provides an outline of the framework and process that have been followed to develop this system.

2. Fishery Management Instruments

Many fishery externality management instruments have been invoked and used around the globe, often in an attempt to reduce or prevent excessive harvesting of fish species, although some are used specifically to tackle fishing environmental externalities. A large literature exists exploring the effectiveness of various fisheries management policy tools and the requirements for their success (e.g. Hanna 1997, OECD 1997). Table 1 describes the

attributes of different policy instruments for internalising environmental externalities and their applications to fisheries management.

3. Evaluation Criteria

Determination of which instruments are 'best' requires criteria to judge performance and data to evaluate performance of the instruments. Slooten and Dawson (1995) note the limitations of most evaluative studies of the performance of fishery management instruments. Clear and robust criteria are necessary to evaluate performance as a basis for selecting appropriate management tools.

Five sets of criteria have been analysed to develop a set of specific outcomes against which policy instruments may be evaluated. The five criteria areas are; environmental, Treaty of Waitangi, economics, socio-cultural, and management. Criteria within each of the sections vary in terms of the strength of direction they give, i.e. the environmental and Treaty of Waitangi criteria are prescriptive because they are mandatory under existing legislation. Economic and social criteria are less prescriptive because policy advisers and decision-makers have greater latitude to consider these. Management criteria fall in between.

3.1 Environmental criteria

The development of environmental criteria requires consideration of:

- Fisheries Act (1996) and other legislative requirements
- International treaty obligations
- Government 'resource management/environmental' policy.

The Fisheries Act has been developed in an integrated way. It draws on international conventions (e.g. UNCLOS) and is complementary to related legislation (i.e. the Resource Management Act 1991) and policy, such as the Environment 2010 Strategy (MfE, 1995). Because of this approach to development of the legislation, it has been possible to integrate more recent environmental management considerations into development of fisheries policy and its implementation. Specifically, development of the Proposed Environmental Performance Indicators of the Marine Environment (MfE, 1998) builds on key Fisheries Act requirements.

3.2 Treaty of Waitangi criteria

The Treaty of Waitangi 1840 is the founding document of New Zealand as a nation. It is part of the law of New Zealand to the extent that it is incorporated into statute. A number of statutes relating to the marine environment incorporate reference to the principles of the Treaty and to the values and traditional relations of Mäori with natural places and resources.

By the Treaty, the Crown confirmed and guaranteed the existing rights of tangata whenua to land and resources, including rights in respect of intangible taonga. Mäori tribes have guaranteed to them under Article II the right to retain (and have restored to them if taken without consent) tribal resources and taonga, and the right to manage them according to their cultural preferences. For this reason, it is imperative that the choice of policy instruments to address environmental externalities associated with commercial fisheries is assessed in terms of implications for Mäori.

3.3 Economic criteria

There are five broad economic requirements for assessment of the performance of policy instruments to address environmental externalities:

- 1. Productive efficiency (including transaction costs)
- 2. Encouragement of innovation (dynamic efficiency)
- 3. Profitability/International competitiveness
- 4. Cost-effectiveness/Least cost policy
- 5. Internalisation (full cost principle).

Cullen et al. (2000) identify what is meant by each of these criteria, and how they may be assessed in practice. The key requirement is to find the least economic cost way to achieve internalisation of the externalities, when imposing the polluter pays principle. Impacts of each policy on transaction costs, market power and windfalls/wipeouts should also be considered.

3.4 Socio-cultural criteria

There are three major areas for criteria development here:

- 1. Community
- 2. Protection of access to recreational fishers
- 3. Equity

Community

Introduction of fisheries management policies can have significant effects on some communities which are heavily dependent on fishing for employment and income. For example, the New Zealand Government removed part time fishers from the industry in 1983 by declaring all fishers who received less than \$10,000 per annum or 80 percent of their income from fishing, to no longer be eligible to fish commercially. This action removed between 1500 and 1800 fishers from the industry while reducing catch by less than 5% (Wallace, 1997). The outcome for those removed was potentially very severe, as many of those removed from the industry lived in poor, isolated communities that did not offer alternative employment opportunities.

Recreational fishing

The rights of recreational fishers are different from those of commercial quota holders, and have not as yet been well defined. Compared to the commercial quota management system and the recently established regulations for Mäori customary fishing, the recreational sector has no equivalent framework for precisely determining rights in the marine resource. For many New Zealanders, however, the freedom to go fishing is considered a birthright.

Equity

Equity questions arise not only on the consumption side of public policy ("who benefits?"), but also on the production side ("who pays?"). There is no clear right answer to what an appropriate distribution of such benefits and costs to society's members should be. There are, however, several principles that can guide consideration of equity issues in the decision making process, e.g. Benefits should be distributed equally (the equality principle), or should be in proportion to effort, contribution, potential, or other measure of merit (the "just desserts" principle).

3.5 Management criteria

Fisheries managers have limited resources available to achieve fishery management objectives. They can be expected to prefer internalisation mechanisms which can be implemented at moderate cost and are effective in achieving externality internalisation, including in less than optimal circumstances. Fisheries managers frequently consider the following 'managerial' criteria when evaluating internalisation mechanisms.

Introduction and modification

Some fisheries policies require new legislation. Others can be introduced and varied by a change of regulations – a much simpler process. Speedy improvement in situations where externalities are present will be favoured by instruments that can be easily introduced and varied.

Administration costs

Administration costs will be determined by the location of the fishery – inshore/mid water/deepwater; by the ease or difficulty in achieving compliance with the system; and by the costs of monitoring fishing activities. Budgetary pressures will force fisheries managers to prefer low administration cost mechanisms. Some mechanisms have potential to be self-funding by requiring payment of fees by industry participants, increasing their likelihood of acceptance by fisheries managers.

Infrastructure requirements

Some internalisation instruments may require that fisheries managers have specific items of equipment. For example, deepwater capable ships may be necessary for monitoring and enforcement of some management instruments. Where these are not available to fisheries managers, alternative mechanisms must be selected to avoid the infrastructure requirement.

Information requirements

Section 10 of the Fisheries Act deals with the Information Principles. Regulatory authorities often have poor information and this can restrict their ability to successfully apply internalisation instruments. Where information availability is weak internalisation instruments that make least information demands are likely to be preferred.

Performance in sub-optimal conditions

A first best internalisation instrument in optimal conditions may perform poorly in sub optimal conditions. Fisheries managers often operate in second best worlds of limited resources, poor information availability, multiple causes of externalities, etc. Fisheries management may be best served by versatile internalisation instruments that operate satisfactorily in many situations, rather than a mechanism that performs well only in ideal conditions.

Pressure on fisheries management staff

Some fisheries internalisation instruments require frontline staff to tackle risky tasks, or to deal with unpleasant situations. These pressures require specially trained fisheries management staff, payment of higher wage rates, and their overall effect is to increase costs of fisheries management. Internalisation instruments which do not lead to confrontation, do not require specially trained staff, or expose fisheries staff to risk, are likely to be more attractive to fisheries managers.

An iterative process was used to develop these areas of concern into a list of salient criteria. The process entailed ongoing discussions with the Ministry of Fisheries, industry, iwi, NGO and recreational interests. The resulting list of criteria is reported in Table 2.

4. Decision Support System

The wide range of potential instruments (22 have been identified in this study, although there are many more), the large number of evaluative criteria (19 identified here), and the differences in weights that people attach to different evaluative criteria ensure that decision making to address fisheries externalities is a highly complex task. The decision support

system 'GoFish' has been developed to simplify this process and to enhance the quality of debate around fishery management decisions (Kerr, Hughey and Cullen, 2000).

GoFish uses a hierarchical structure to simplify the decision making process. The initial step is choice of the type of fishery in which the externality occurs (Figure 2), which is necessary because the effects of management instruments vary across fishery types. The second step in the process is selection of essential characteristics (Figure 3). At this stage, the operator is required to identify any outcomes that must be achieved. GoFish then checks to verify that there are instruments capable of meeting this requirement. Should there be no instruments meeting all critical criteria, the operator is prompted to slacken the criteria until at least one viable instrument is identified. The third step in the process is application of a weighted matrix scoring system to the subset of viable solutions. Table 2 shows draft effectiveness ratings of 22 instruments against 19 criteria, a total of 418 ratings. These ratings can be changed in GoFish. In the final step, one hundred points are allocated by the operator across all evaluative criteria, excluding those already deemed to be essential (Figure 4). GoFish scores each of the viable solutions and reports them and their scores in order (Figure 5).

GoFish has a wide range of potential applications, e.g.

- to let parties apply it independently in order to identify differences in criteria weightings and therefore to focus debate on key issues;
- to determine if there are any instruments which will completely resolve a specific fishery problem, e.g. mammal bycatch in the trawl fishery;
- to determine if there are any instruments which might be used extensively to deal with a potentially widespread problem, e.g. pollution;
- to identify the best instruments to deal with issues, even if none of them completely resolve that problem, and see how the results change as points allocation is altered;

- to identify sets of viable solutions, for example MFish may want to find the set of
 instruments that is 'least cost to them' for a fisheries problem;
- to use it to defend, or play devils advocate, why a particular instrument is being proposed/used in specific cases; and/or
- to test to see if one or two instruments will be good enough to deal with many problems
 and hence can result in simplified management.

5. Discussion

Characteristics of the decision support system are that it:

- identifies internalisation instruments that definitely can not meet key criteria;
- analyses the remainder to identify those that best meet the evaluative criteria; and
- produces a report that compares the most promising internalisation instruments.

GoFish is an extremely simple tool that is intended to help analysts to clarify issues and not to make decisions for managers. It is limited because of its design characteristics, information requirements, and inbuilt assumptions.

Design Characteristics

GoFish looks at using single instruments to address single problems. Clearly, the real world is much more complex than this. Most fisheries are characterised by a number of problems and experience has shown that solutions that rely upon several instruments often work better than application of a single instrument. What is more, fisheries are not discrete and management actions designed to address one fishery can have unintended outcomes in another. These conditions signal the need to identify a portfolio of management instruments that work in

harmony. They also raise the issue about how far one should attempt to go in formulating a decision support system.

GoFish is designed as a tool to clarify issues in fisheries management that are not currently being addressed. It is helpful because it expands the range of solutions that may be considered, and forces people to question their values and the impacts predicted from application of particular instruments. Extension of the system to handle multiple problems across several fisheries and to combine instruments would require a much more heroic set of assumptions than those already employed. There is a risk that further "black boxing" may result in less discussion rather than more. That appears to be an outcome that could seriously jeopardise fisheries. If the intent of the decision support system is to mobilise expert knowledge, then simple decision support systems, like GoFish, may be superior to more complex systems.

Information requirements

There is a lack of knowledge about many aspects of the environmental impacts of fishing. Further, there is little certainty about the relative severity of impacts within or between fisheries. Scientists and managers need to address these issues so that decision makers can be assured they are working on the issues of highest priority. In many circumstances we do not know the effectiveness of instruments. Scientists, fishers and fisheries managers need to be improving our knowledge base in these areas. There may be a need, given the above, for fisheries managers to learn-by-doing to understand the impacts of instrument implementation.

Our evaluation of the effectiveness of instruments within different fishery types is likely to be different to evaluations undertaken within the Ministry of Fisheries or by other analysts. This might be interpreted initially as a limitation of the system. However, upon closer reflection it

might better be considered a strength. This conclusion is reached because differences can help expose important tensions – these tensions can then be further explored in trying to seek an improved solution to the problem(s) or to identify the areas where information is most in need of improvement. Further, different operators will use different criteria scores and critical criteria. Printing them out allows direct comparison of operator differences.

Assumptions

GoFish employs a linearly additive objective function. Each outcome score is multiplied by its weight and all such products are summed to derive the overall score for the instrument. The system could potentially be improved by utilisation of a non-linear objective function to allow for diminishing marginal benefits. However, the improvement, if any, could be illusionary. Another avenue that can go some way to achieving the same ends is to adopt a non-linear scoring system for each cell in Table 2. Since the scores included in Table 2 are completely subjective, this may explain some of the differences between different analysts scoring of instruments against criteria. Consequently, one area for improvement is to standardise the scoring process by careful specification of thresholds for each score category. However, if a decision support system is to be used to encourage debate about critical issues, it may be advantageous for parties with differing views to undertake the scoring together. The final scores derived may then have less relevance than the process undertaken to obtain them.

6. Conclusions

Development of a credible decision support system presents a difficult challenge. One of the primary benefits from the development of GoFish has been increased understanding of; the complexity of fisheries management, the poor quality of fisheries information, the lack of clarity in objectives for management, and the poor understanding of the impacts of

management instruments. Until these issues have been addressed decision support systems will be able to do little more than focus debate on key issues and identify management instruments that are worthy of closer scrutiny. They are certainly not in a position to replace analysts with a clear understanding of the issues involved in fisheries management. While their role is limited, the benefits of issue clarification are likely to be sufficient to justify further development of tools like GoFish.

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Table 1. Management Instruments.

I able 1. Managem Instrument	Main world uses	Current NZ uses	Applicability to fishing
Regulatory	Main world uses	Carrent 112 uses	reprecionity to issuing
No take zones	Protect juveniles,		No fishing in specified zones means
	spawning areas etc		externalities not created
Marine Reserves	Protect juveniles,	Banks Peninsula, Long	Area set aside for preservation of
	spawning areas, etc,	Bay etc	marine species
	protect habitat		
Closed seasons, areas	Protect juveniles,	Near sub Antarctic	No fishing during designated times and
	spawning areas etc	islands.	/or in prescribed areas.
Size or sex	Direct effort away from	Rock lobster, size	Requirement for fishers to return to sea
selectivity	specified ages, sex	requirement	all prohibited catch
	individuals		
Bycatch Reduction	Reduce rate of bycatch	Pingers on gill nets	Vary technology used while fishing to
Devices (BRD)	of fish and other species		reduce bycatch of fish or other species
Technology ban	Prevent externalities	Drift netting ban	Reduce bycatch by only allowing
	associated with specific		techniques which cause few
	harvesting technologies		externalities
Input limitations	Reduce externalities		Reduce volume of fishing activity and
	associated with number		associated externalities
	of potlifts, boat days etc		
Catch limitations	Reduce externalities	Foveaux Strait oysters	Limit total harvesting and associated
	associated with effort		externalities
Retention and	Reduce dumping of target	Catching Against	Allow non target catch to be landed,
utilisation	and non -target species	Anothers Quota	not dumped
requirements		(CAAQ), Fishing	
		Against Anothers	
		Quota (FAAQ)	
Financial systems			
Taxes	Provide incentive to	Conservation Services	Apply tax to variable inputs, boats,
	reduce, eg, pollution	Levy, applied to some	outputs, to reduce profits and
		non-fish bycatch	externalities
Subsidies	Reduce costs of inputs	R&D assistance	Reduce costs of developing BRD
Environmental	Provide financial	Mining, biodiversity	Provide incentive to not damage habitat
performance bonds	incentive to avoid	protection	or marine ecosystem
	creating externalities		
Financial	Bribe to behave in		Financial reward if do not create
inducements	desired way		environmental externalities
IQ, ITQ, IVQ CDQ,	Reduce race to fish	NZ QMS	Creation of rights reduces need to race,
Share fisheries			provides incentive to maintain asset
Voluntary approache			
Co management	Right holders draw up	Challenger Scallop	Peer agreements reduce externalities
	operating systems		
Codes of practice	Agreed behaviour which	HSNO, Agchem	Industry develop, adopt, codes which
1	limits externalities		limit or preclude externalities
Accredited	Industry develops	Marine Stewardship	Industry develop, adopt, systems with
environmental	systems - externally	Council, ISO 14001	environmental policy which aims to
management systems	audited pre-accreditation	,	limit or preclude externalities
Conservation	Negotiated agreements	QEII Trust, Ducks	Negotiated agreement to not take
easements	restricting behaviour	Unlimited	certain actions, eg, create externalities
Legal Remedies		<u> </u>	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Tort law	Liability for pollution	RMA is a 'strict	Potential damages claims provide
	damages	liability' law	incentive to avoid creating
			externalities
Education and Inform	nation Supply		•
Publications, guides,	numerous	Numerous, e.g.,	Informed people change behaviour,
kits, etc		biodiversity protection	not create externalities
Informal regulation,	Toxics Release Inventory	production of the second	Information release plus community
e.g., environmental	and corporate		pressure, modifies firm behaviour
reporting	environmental reporting		T See See See See See See See See See Se
-1		1	1

Table 2. Effectiveness of management instruments against individual criteria (scale: 4= totally effective; 0= no effect; -2 is negative)

Instrument	Non-target fish bycatch	Marine habitats/seabed disturbance	Mammal bycatch	Bird bycatch	Invertebrate, flora and bryophyte bycatch	Pollution	Fish habitats	Maori customary rights & practices are protected	Recreationists access to fish is maintained	Least net cost to commercial fishers	Internalisation	Avoids large distributional changes	The management mechanism is cheap to administer	Necessary infrastructure is cheap and readily available	The mechanism has low information needs	Does not require highly skilled management staff	Effectiveness in non-ideal conditions	The management mechanism is easily introduced	The management mechanism is easily modified
No take zones	2	4	3	0		0	2	-2	2	3	0	2	4		4	4	4	1	3
Marine Reserve	2	4	2	0		0	2	-2	2	2	0	3	4		4	4	4	0	0
Temporary area closure	2	1	3	3		2	1	3	2	2	0	1	4		2	4	4	2	4
Closed seasons	2	1	4	3		2	0	-1	4	2	0		4		4	4	4	2	4
Size or sex selectivity	0	-2	-2	-2	-2	-1	0	4	2	3	0	3	2		4	4	1	4	4
Bycatch reduction devices	2	0	4	3		0	0	4	4	4	0	2	3		4	4	2	4	4
Technology ban	2	3	3	3		0	1	4	4	1	0	1	3		4	4	3	1	2
Input limitations (quantitative)	2	2	2	2		2	1	2	4	2	0		2			3		1	1
Catch limitations	2	2	2	2	2	1	0	3	2	2	0	2	2	4	3	4	3	1	1
Retention requirements	3	0	0	0	0	0	1	4	2	3	3	4	2			4	0	3	2
Tax variable inputs	2	1	1	1	1	1	0	4	4	1	3	1	1	1	0	2	0	2	
Financial inducements	3	2	2	2		0	2	2	4	4	4	4	1	1	1	3		0	0
Subsidies	3	2	2	2		0	2	2	4	4	4	3	1	1	1	3		0	0
Environmental bonds	1	3	2	1	0	2	1	2	4	2	4	1	1	3		3		2	0
Property rights	3	2	3	1	1	0	4	0	2	3	4	3	3		0	2	0	2	
Co-management	2	3	3	3		0	3	2	3	2	2	4	2			1	0	3	1
Codes of practice	2	2	2	2		1	2	2	4	4	1	4	4		2	4	2	4	4
Conservation easements	2	2	2	2	2	1	2	0	3	3	0	4	4			0		2	0
Tort law	1	1	1	1	1	0	1	0	4	2	2	4	1	4	0	0	0	0	0
Publications/guides	2	1	1	1	1	1	1	1	4	4	0	4	4		2	2	1	4	4
Informal regulation	1	1	1	1	1	1	1	1	4	4	1	2	3			1	4	4	4
Accredited EMS	3	3	3	3	3	3	3	3	4	2	4	-2	4	2	0	4	3	4	4

Figure 1. Purpose and principles of the Fisheries Act 1996.

PART II: PURPOSE AND PRINCIPLES

- **8. Purpose** (1) the purpose of this Act is to provide for the utilisation of fisheries resources while ensuring sustainability.
 - (2) In this Act-

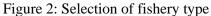
"Ensuring sustainability" means-

- (a) Maintaining the potential of fisheries resources to meet the reasonable foreseeable needs of future generations; and
- (b) Avoiding, remedying, or mitigating any adverse effects of fishing on the aquatic environment:

"Utilisation" means conserving, using, enhancing, and developing fisheries resources to enable people to provide for their social, economic, and cultural well-being.

- **9. Environmental principles** All persons exercising or performing functions, duties, or powers under this Act, in relation to the utilisation of fisheries resources or ensuring sustainability, shall take into account the following environmental principles:
 - (a) Associated or dependent species should be maintained above a level that ensures their long-term viability.
 - (b) Biological diversity of the aquatic environment should be maintained.
 - (c) Habitat of particular significance for fisheries management should be protected.
- **10. Information principles** All persons exercising or performing functions, duties, or powers under this Act, in relation to the utilisation of fisheries resources or ensuring sustainability, shall take into account the following information principles:
 - (a) Decisions should be based on the best available information:
 - (b) Decision makers should consider any uncertainty in the information available in any case:
 - (c) Decision makers should be cautious when information is uncertain, unreliable, or inadequate:

The absence of, or any uncertainty in, any information should not be used as a reason for postponing or failing to take any measure to achieve the purpose of this Act.



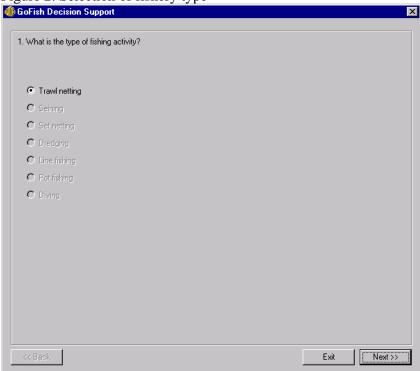


Figure 3: Selection of essential characteristics

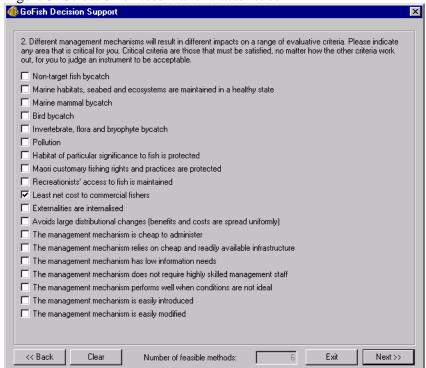


Figure 4: Allocation of points across criteria

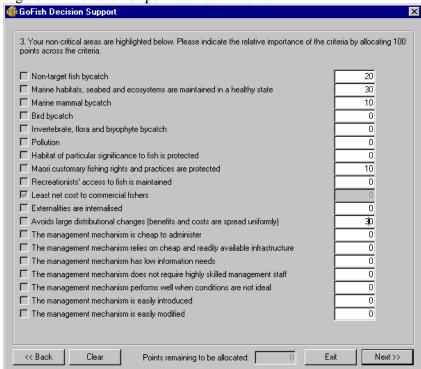


Figure 5: Decision Support System output

