
Technical efficiency effects of input controls: evidence from Australia's banana prawn fishery

TOM KOMPAS†, TUONG NHU CHE‡ and
R. QUENTIN GRAFTON§*

†Asia Pacific School of Economics and Government, The Australian National University and Australian Bureau of Agricultural and Resource Economics;

‡Australian Bureau of Agricultural and Resource Economics and §Centre for Resource and Environmental Studies (CRES), The Australian National University

This paper provides the first *ex post* estimates of the effects of input controls on technical efficiency in a fishery. Using individual vessel data from the northern prawn fishery of Australia for the years 1990–1996 and 1994–2000, stochastic production frontiers are estimated to analyse the efficiency impacts of input controls on engine and vessel size. The results indicate that technical efficiency is *increasing* in a measure of vessel size and engine capacity that was controlled by the regulator from 1985 to 2001, and *decreasing* in an unregulated input, gear headrope length. The study shows that fishers have substituted from regulated to unregulated inputs over the period 1990–2000 and technical efficiency has declined coincident with increasing restrictions on vessel size and engine capacity. The decline in technical efficiency indicates that the goal of the regulator to increase economic efficiency has not been realized.

...we cannot necessarily simply limit “effort” (a multi-dimensional notion) by, say, limiting tonnage or vessel numbers, or numbers of fishermen. With flexibility fishermen have the option to, and may, in fact, simply readjust other factors in their control to expand effort and subvert any imposed restrictions.

J. E. Wilen (1979, pp. 855–56)

I. INTRODUCTION

Input controls and restrictions on vessel gear are the principal methods of controlling effort in many developed

fisheries.¹ This is despite a large literature that outlines the potential for fishers to substitute to unregulated inputs and circumvent controls on overall fishing effort.² Although fishery managers are aware of the possibility of input substitution, this paper is the first to measure *ex post* changes in individual technical efficiency associated with input controls and to estimate the direct effects of the controlled input on average vessel technical efficiency.³ The results are important as they provide confirmation that input controls may have a deleterious effect on efficiency and provide support for alternative methods of regulation, such as individual output controls, in fisheries where efficiency is viewed as an important goal of management.

*Corresponding author. E-mail: qgrafton@anu.edu.au

¹ Alam *et al.* (2002) analyse the issue of licence limitation, especially area licences, in the context of tropical fisheries.

² Townsend (1990) provides a classic survey of the evidence.

³ Squires (1987) was the first to empirically measure input substitution in fisheries using a flexible functional form. Empirical studies that have assessed the impact of input controls have measured the level of input substitution and rent dissipation (Dupont, 1991), input substitution from regulated to unregulated inputs (Campbell, 1991; Del Valle *et al.*, 2003) and the contribution of unmeasurable inputs to efficiency (Pascoe and Cogan, 2002).

Our study uses data from Australia's northern prawn fishery (NPF) which is managed by the Australian Fisheries Management Authority (AFMA) with the objective of ensuring ecological sustainability and economic efficiency (ABARE, 2000a). To prevent overfishing, AFMA has limited fishing effort by regulating vessel and gear capacity. To assess the economic effects of these input controls and input substitution from regulated to unregulated inputs changes in technical efficiency are estimated using a stochastic frontier production function.⁴ This method decomposes the variation in the output of fish due to unbounded random effects, such as weather, from variation in technical efficiency that can be explained by differences in vessel or skipper characteristics.⁵ Such an approach also provides key information on the relative importance of inputs in production of banana prawns and the economic performance of each fishing vessel, year to year.

Various applications of stochastic production frontiers to assess firm inefficiencies exist in agricultural and industrial settings and include Battese and Coelli (1992), Coelli and Battese (1996) and Kong *et al.* (1999). The first technical efficiency study in fisheries was by Hannesson (1983) who assumed a single input and estimated a deterministic frontier. In a seminal paper, Kirkley *et al.* (1995) were the first to use a stochastic frontier in fisheries and predicted the possible effects on technical efficiency of changes in limited entry and input restrictions. The stochastic frontier approach has also been employed by Pascoe and Cogan (2002) in a study of the contribution of unmeasurable inputs to overall technical efficiency in the English Channel fishing fleet, by Grafton *et al.* (2000) to evaluate the efficiency effects of output controls in the British Columbia halibut fishery, and by Sharma and Leung (1999) to investigate the effects of vessel characteristics and targeted species on vessel technical efficiency in the Hawaiian longline fishery.

The purpose of the paper is to empirically estimate the effects of inputs controls, and substitution from regulated to unregulated inputs, on technical efficiency in the northern prawn fishery. The following section describes the fishery and its management regulations. Section III provides a summary of the theoretical framework underlying stochastic production frontiers that are used to estimate individual vessel technical efficiency. Section IV describes the different data used in the analysis and the econometric specification of the stochastic production frontiers. Section V evaluates the results and efficiency effects of input controls in the fishery. Section VI uses the results to provide

general insights about fisheries management and the use of input controls and Section VII concludes.

II. THE AUSTRALIAN NORTHERN PRAWN FISHERY

The northern prawn fishery (extending from Cape Londonderry in Western Australia to Cape York in Queensland) and covering almost one million square kilometres is the largest and one of Australia's most valuable fisheries. First established commercially in the late 1960s, more than fifty species of prawn inhabit the fishery, but brown and grooved tiger prawns and white banana prawns currently account for over 80% of the commercial landings (ABARE, 2000b). Annual catches since 1983 range from 2200 to 6600 tons per year (AFFA, 2000) with the white banana prawn accounting for over 80% of all banana prawn catch.

The gross value of prawn production in the NPF in 1999–2000 was some A\$107 million with a total harvest of about 5600 tons (AFMA, 2001). Nearly 90% of all prawn output is exported to Japan and Asia. The potential catch is highly dependent on weather patterns, but the relationship between catch and future stock size for banana prawns is less certain. As yet, there is still no conclusive evidence that effort influences future stock abundance in this fishery (Staples and Maliel, 1994), although very recent catches below expectations have caused concern (ABARE, 2000b; Timcke *et al.*, 1999). In fact, the maximum sustainable yield for banana prawns is estimated to be 4000 tons, which is roughly equivalent to the average catch over the past decade (Taylor and Die, 1999).

The prawn fishery can be prosecuted from April to November with a mid-season closure in June and July to protect spawning stocks. Most fishers focus their efforts on banana stocks before the mid-season closure and then switch to targeting tiger and other prawn species. The fishers employ twin rig otter trawls and use advanced technologies to locate fish that include colour echo sounders, GPS navigation, on-board computers, and satellite communications.

The fishing season (with mostly daytime catch) starts around April and lasts for only a few weeks. Single aggregations of banana prawns usually contain 4 to 180 tons, but can be as high as 400 tons. The highest seasonal catches generally follow higher than average rainfall during the preceding summer (Staples and Vance, 1986) and lower

⁴We are prevented from estimating allocative efficiency in this fishery because of lack of data on input prices. We note that technical efficiency is necessary, but not sufficient, to ensure economic efficiency.

⁵Green (1993) and Førsund *et al.* (1980) are useful surveys of the stochastic frontier approach. Kumbhakar and Knox Lovell (2000) is also highly recommended.

catches are associated with abnormally lower rainfall in the same year. Given the ease in harvesting, the trawling time for banana prawns is typically of a short ten to twenty-minute duration.

Management regulations

The fishery is managed by AFMA, an Australian federal agency. Over the years, the NPF has been regulated to address concerns over the level of fishing effort and its impact on the biological sustainability of stocks. Since 1977 the fishery has been regulated by limited entry controls to prevent overharvesting that have restricted the number of vessels in the fishery. Initially the goals of regulation were to ensure a sustainable biomass and stock of prawns, but since 1991 it has also included the objective of economic efficiency.

To address concerns over prawn stocks due to an increased number of vessels and excessive fishing effort, the regulator implemented limited-entry restrictions in 1977. At the time, 292 vessel licences were allocated although there were only 193 active vessels. These licences were transferable and trading resulted in their allocation to newer and larger vessels. In addition, more fishers took up their fishing entitlements and by 1981 there was an almost 50% increase in the number of active vessels. Concerns about the increased fishing effort in terms of the prawn stocks led to a series of regulatory changes to control the inputs used by fishers.⁶

In 1985, a boat replacement policy was introduced that was designed to reduce the capacity of the fishing fleet. Under the policy, vessel owners wishing to improve their vessels, or use a newer vessel, were required to surrender 'A-units' equal to the number of A-units on the upgraded or new vessel, less 375. These A-units were defined as the sum of the kilowatt of engine power and hull size in cubic metres and represented a measure of fishing capital. The boat replacement policy required vessel owners to acquire A-units from other licence holders and was designed to prevent further increases in capacity within the fleet. The policy was changed in 1993 such that vessel owners wishing to upgrade or introduce a new vessel were obliged to surrender A-units and a vessel licence, such that at least one other vessel was removed from the fishery.

The regulator has also initiated voluntary buy-back of A-units with the goal of reducing the number of A-units in the fleet to 70 000 units. The first buy-back scheme was introduced in 1985 and was funded by a \$A450 levy on each vessel based on the number A-units held, but it failed to meet its target. In 1991, a second voluntary buy-back scheme was implemented with the goal of reducing

the number of A-units from 96 300 to 54 000 by 1993 using \$A45 million financial assistance from the government. The buy-back scheme reduced the number of A-units to 76 000 by 1992 and, to achieve the target, a *pro rata* reduction of A-units was imposed in 1993. To be in compliance with the A-unit regulations, vessel owners were obliged to reallocate their A-units among the vessels they owned or purchase A-units from other fishers who then exited the fishery (Dann and Pascoe, 1994). The end result was that by 1996 there were 127 active fishing vessels in the fleet with a total capacity of 52 000 A-units (Die and Bishop, 1998).

In addition to A-units regulations, various other measures have been used to control fishing effort. These measures include seasonal closures (to protect spawning resource stocks), restrictions that limit the gear to two trawl nets, and a gear length limit that restricted the average total headrope length to 24 fathoms (subsequently removed in 1993).

Concerns over the ability of input controls to limit fishing effort and its negative implications for economic efficiency have led to discussions over the possible use of individual output controls. To date, the introduction of individual harvesting rights has been strongly opposed by the fishers, especially operators with larger vessels, who believe they can generate higher returns under the present regulations.

III. THEORETICAL FRAMEWORK

Aigner *et al.* (1977) and Meeusen and van den Broeck (1977) were the first to develop stochastic production frontiers. The specification allows for a non-negative random component in the error term to generate a measure of technical inefficiency, or the ratio of actual to expected maximum output, given inputs and the existing technology. The approach can be readily applied to an unbalanced panel. Indexing (fishing) firms by i the specification can be expressed formally by

$$Y_{it} = f(X_{it}, \beta, t)e^{v_{it}-u_{it}} \quad (1)$$

for time t where Y_{it} is output (or catch), X_{it} is a vector of inputs and β is a vector of parameters to be estimated. The error term v_{it} is assumed to be independently and identically distributed, $N(0, \sigma_v^2)$. The term captures random variation in output due to factors beyond the control of firms, such as weather. The error term u_{it} captures technical inefficiency in production. The common assumption is that the error term is firm-specific, non-negative and independently distributed as non-negative truncations (at zero) of the distribution $N(u_{it}, \sigma_u^2)$. Following Battese

⁶ This is especially true for tiger prawns, but the tiger and banana prawn fisheries are treated as a single fishery for management purposes.

and Coelli (1995), the inefficiency distribution parameter can be specified as

$$\mu_{it} = \delta_0 + z_{it}\delta + \omega_{it} \quad (2)$$

where ω_{it} is distributed $N(0, \sigma_\omega^2)$, z_{it} is a vector of firm-specific effects that determine technical inefficiency and δ is a vector of parameters to be estimated. Firm-specific factors that might affect technical efficiency include vessel size, length of gear, engine power, a hired skipper versus an owner-operator and skipper experience, among others. Input variables may be included in both Equations 1 and 2 provided that technical inefficiency effects are stochastic (Battese and Coelli, 1995).

The condition that $\mu_{it} \geq 0$ in Equation 1 guarantees that all observations either lie on, or are beneath, the stochastic production frontier. A trend can also be included in Equation 2 to capture time-variant effects.⁷ Following Battese and Corra (1977) and Battese and Coelli (1993), variance terms are parameterized by replacing σ_v^2 and σ_μ^2 with

$$\sigma^2 = \sigma_v^2 + \sigma_u^2 \text{ and } \gamma = \frac{\sigma_u^2}{(\sigma_v^2 + \sigma_u^2)}$$

The technical efficiency of the i th firm in the t th period can be defined as

$$TE_{it} = \frac{E(Y_{it}|u_{it}, X_{it})}{E(Y_{it}|u_{it} = 0, X_{it})} = e^{-u_{it}} \quad (3)$$

where E is the expectations operator. Thus the measure of technical efficiency is based on the conditional expectation given by Equation 3, given the values of $v_{it} - u_{it}$ evaluated at the maximum likelihood estimates of the parameters in the model, where the expected maximum value of Y_{it} is conditional on $\mu_{it} = 0$ (Battese and Coelli, 1988). The measure TE_{it} has a value between zero and one and the overall mean technical efficiency of firms is

$$TE = \left\{ \frac{1 - \phi[\sigma_u - (\mu/\sigma_u)]}{1 - \phi(\mu/\sigma_u)} \right\} e^{-\mu + (1/2)\sigma_u^2} \quad (4)$$

where $\phi(\cdot)$ represents the density function for the standard normal variable.

IV. DATA AND MODEL

The unbalanced panel data used to estimate the stochastic frontiers for the NPF comes from two different data sets. Data on a larger set of variables is available for an unbalanced panel of 37 vessels over the period 1990 to

1996, or 228 observations with 31 missing values, and for a smaller set of variables for the entire fleet over the period 1994–2000 for a total of 844 observations with 122 missing values. Details of the variables in each data set are summarized in Tables 1a and 1b with summary statistics provided in Tables 2a and 2b.

The vessels included in the 1990–1996 data harvested almost 40% of the total catch of banana prawns each year and are drawn from surveys and statistics for the NPF fleet carried out and compiled by the Australian Bureau of Agricultural and Resource Economics (ABARE) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). The data includes measures of output by species (banana, brown and grooved prawn), crew size, revenue, boat variable costs (not available by species), capital costs, nominal fishing days for banana prawns and vessel characteristics (hull units, engine power, A-units, gear length, boat size). The 1994–2000 data comes from CSIRO and is limited to boat or vessel characteristics (hull units, engine power, A-units, gear length, boat size), landings of banana prawns and nominal fishing days for banana prawns.

Variables and variable construction

The output of banana prawns is measured in kilograms per year, with considerable variance from year to year, and an average per boat for 1990–1996 of 41 333 kg/year and for 1994–2000 of 29,074 kg/year. For the entire fleet, vessel size varies from 13 to 30 m, with a standard deviation of 9 m and an average of 22 m. Crew size averaged 6.6 persons per vessel in the period 1990–1996 and the average number of fishing days per year, the usual proxy for fishing effort, was 56.7 over the same period.

Due to the nature of fishing in the NPF, vessel trawling is an important determinant of catch and, thus, headrope gear length is used as a proxy for trawling capacity. Average gear length in the panel is measured at 13 metres. Fuel expenditures averaged A\$47,522 per year for the period 1990–1996, indexed by fuel prices in base year 1989, and include fuel, oil, and grease.⁸ For the entire fleet, over the period 1994–2000, A-units per vessel had a mean value of 418.

Econometric specification

Generalized likelihood ratio tests are used to help confirm the functional form and specification of the estimated

⁷ For the specifications in Section IV, likelihood ratio tests (not reported) reject a time trend in the technical inefficiency model, so the effect is ignored here.

⁸ See NPFAMP (2000). Fuel is related to engine power and to a lesser extent to vessel size. In the data set, boat fuel expenditures are available only as an aggregate over tiger and banana prawn output. The measure of fuel used for banana prawns is thus obtained by multiplying total fuel expenditures by effort days in banana prawn production as a fraction of total effort days in banana and tiger prawn production.

Table 1. Description of inputs and vessel specific variables

Variables	Description	Sources
(a) 1990–1996 data		
• Crew	Number of crew on boat and skipper	ABARE
• Fishing effort	Nominal fishing days for banana prawns	CSIRO
• Vessel A-unit	The sum of one A-unit for every cubic metre of hull volume and one A-unit for each kilowatt of engine power	CSIRO
• Input expenditures	Fuel, oil and grease and expenditures measured in 1989 prices	ABARE
• Gear length	Headrope length of gear (metres)	CSIRO
• Boat size	Vessel length (metres)	CSIRO
• Skipper	Hired skipper (1), owner-operated vessel (0)	CSIRO
• Banana prawn output	Banana prawns (kilograms)	ABARE
(b) 1994–2000 data		
• Output	Output of banana prawn (kg)	CSIRO
• Fishing effort	Nominal fishing days for banana prawns (days)	CSIRO
• Hull units	Under deck tonnage	CSIRO
• Engine power	Registered engine power (kw)	CSIRO
• Vessel A-unit	The sum of one A-unit for every cubic metre of hull volume and one A-unit for each kilowatt of engine power	CSIRO
• Gear length	Headrope length of gear (metres)	CSIRO
• Boat size	Vessel length (metres)	CSIRO

Table 2. Summary statistics for key variables for banana prawns in the northern prawn fishery

		Average	St dev	Min	Max
(a) 1990–1996 data					
• Output	kg/year	41 333	26 417	4 931	125 235
• Crew number/boat	persons	6.6	1.1	5.0	9.0
• Fishing days/year	days	56.7	31.4	6.0	158.0
• Input expenditures (1989 prices)	SAUS	47 522	33 738	4 181	202 460
• Gear length	metres	27.0	2.7	24.0	32.0
• Vessel A-unit	A-units	508	80	330	694
(b) 1994–2000 data					
• Output	kg/year	29 074	65 486	372	125 390
• Fishing effort	days	40	68	1	134
• Hull units	cu.m.	108	77	26	179
• Engine power	kw	309	216	95	526
• Vessel A-unit	A-units	418	292	121	705
• Boat size	metres	21.7	8.5	12.8	29.8
• Gear length	metres	25.4	4.2	14.0	36.0

Source: Constructed from statistics and surveys compiled by ABARE and CSIRO.

models. The correct critical values for the test statistic come from a mixed χ -squared distribution (at the 5% level of significance) and are drawn from Kodde and Palm (1986). A translog specification was initially estimated, but a pre-test

with the null hypothesis of the Cobb–Douglas as the correct functional form could not be rejected.⁹

Given differences in the available variables for the two unbalanced panels, two different stochastic production

⁹ Results from the translog and the pre-test are available from the authors upon request. It should also be noted that although the translog specification allows more scope for substitution, the input restrictions used in the NPF make conventional measures of elasticities of substitution inappropriate (Dupont, 1991).

frontiers were estimated. Using the 1990–1996 data, the inputs into the harvesting process can be specified as flows with the exception of a proxy for trawling capacity given by headrope length. For the 1994–2000 data, the number of variables is more restricted and, with the exception of the number of fishing days, is limited to the levels of capital variables that include engine power and headrope length.

For the 1990–1996 data set, the estimated stochastic production function is given below,¹⁰

$$\begin{aligned} \ln Y_{it} = & \beta_0 + \beta_1 \ln \text{crew}_{it} + \beta_2 \ln \text{effort}_{it} + \beta_3 \ln \text{gear}_{it} \\ & + \beta_4 \ln \text{fuel}_{it} + \beta_5 d90 + \beta_6 d92 + \beta_7 d94 \\ & + \beta_8 T + v_{it} - u_{it} \end{aligned} \quad (5)$$

where Y_{it} is the output of banana prawns by observation i in period t , crew is number of persons per boat, including the skipper (or owner-operator), and effort is the average number of fishing days. Fuel represents all input expenditures (fuel, oil, and grease).¹¹ Gear is the vessel's headrope length and is a measure of trawling capacity. The variables $d90$, $d92$ and $d94$ are year dummies for 1990, 1992 and 1994 to account for weather related anomalies that represent years of abnormally low rainfall prior to harvest, which reduces the fishing stock of prawns.¹² The time trend given by T captures non-specific effects on harvest because there is no data available on current stock abundance (or recruitment) to include as an input in Equation 5, although weather dummies clearly account for some changes in fishery recruitment.¹³

A specific measure of capital, such as A-units, is not included because fishing days already embody a certain degree of capital (and other materials), there is evidence that fuel expenditures are strictly related to engine (and vessel) size and power (NPFAMP, 2000) and because we wish to ensure inputs are represented as a flow of services.¹⁴

In this setup, crew labour services are assumed to be proportional to crew size.

Using the 1994–2000 data, the estimated stochastic production function is given by,

$$\begin{aligned} \ln Y_{it} = & \beta_0 + \beta_1 \ln \text{effort}_{it} + \beta_2 \ln \text{engine}_{it} + \beta_3 \ln \text{gear}_{it} \\ & + \beta_4 d94 + \beta_5 d00 + \beta_6 T + v_{it} - u_{it} \end{aligned} \quad (6)$$

where engine is defined as kilowatts of power and year dummies for 1994 and 2000 are included for weather anomalies.

The vessel-specific factors in the technical inefficiency distribution parameter, using the 1990–1996 data are A-units, gear length and the binary variable skipper given below:

$$\mu_{it} = \delta_0 + \delta_1 \text{A-units} + \delta_2 \text{gear} + \delta_3 \text{skipper} + \omega_{it} \quad (7)$$

where the ω_{it} is an error term to account for random differences in efficiency across vessels and the skipper designates if the vessel has a skipper (= 1) or is owner operated (= 0). For the 1994–2000 data, the technical inefficiency model is given by

$$\mu_{it} = \delta_0 + \delta_1 \text{gear} + \delta_2 \text{hullunits} + \delta_3 \text{effort} + \delta_4 \text{engine} + \omega_{it} \quad (8)$$

where hull units are measured in cubic metres and A-units correspond to the sum of hull units and engine power. Gear can be included in Equations 5 and 7, and 6 and 8, and effort and engine power in both 6 and 8, provided that technical inefficiency effects are stochastic (Battese and Coelli, 1995).¹⁵

Hypothesis tests for the stochastic frontiers and the inefficiency models are summarised in Tables 3a and 3b and represent generalized likelihood ratio (LR) tests. The null hypothesis of no time trend in Equations 5 and 6 is rejected. The null hypothesis that technical inefficiency effects are absent ($\gamma = 0$ and $\delta_i = 0$ for all i) and that vessel-specific effects do not influence technical inefficiencies

¹⁰ Equation 5 is comparable to the approaches used in Kirkley *et al.* (1995) and Sharma and Leung (1999). Given the available data, the first paper uses days at sea, stock abundance and labour to estimate sea scallop production in the mid-Atlantic and the second paper uses trip days, crew size and other inputs (fuel, bait, ice, etc.) to estimate output in the longline fishery in Hawaii. It should be mentioned that Kirkley *et al.* (1995) use a two-step procedure to estimate technical inefficiency, rather than estimating the stochastic production frontier and technical inefficiency effects directly in a single step. The latter provides more efficient estimates (see Battese and Coelli, 1995 and Kumbhakar *et al.*, 1991) and, moreover, the two-step procedure is inconsistent with the assumption of identically and independently distributed technical inefficiency effects.

¹¹ Fuel input quantities and prices are not available by vessel.

¹² In the Carpentaria region, rainfall in the summer months (December to March) in the years 1990, 1992 and 1994, obtained from the CSIRO, was 2654, 3445, 3550 millimetres compared to average for all other years in the sample period of 4550 millimetres.

¹³ The specification given by Equation 5 assumes that weather effects, as normally distributed and unbounded random variables, are accounted for (with adjustments to coefficient values for inputs through the choice of relevant dummy variables) in the disturbance term v_{it} , rather than in the technical inefficiency model. Managers at AFMA also believe that there has been a downward trend in the stock of prawns over the 1990s, but do not have the data to test their hypothesis.

¹⁴ A-units and fuel expenditures (which are known to vary by engine size and power) are correlated and thus both variables are not included together. Nevertheless, replacing fuel with A-units gives comparable final estimates in all cases.

¹⁵ Diagnostic tests, available from the authors, also indicate that if the input variables are included in levels in Equations 7 and 8, there is no specification error.

Table 3. Generalized likelihood ratio tests of hypotheses for parameters of the stochastic production frontier and technical inefficiency models

Null hypothesis	χ^2 -statistic	$\chi^2_{0.95}$ -value	Decision
(a) 1990–1996 data (Equations 5 and 7)			
No time trend in Equation 7	6.66	2.70	fail to reject H_0
$\gamma = \delta_0 = \delta_1 = \delta_2 = \delta_3 = 0$	15.24	10.37	reject H_0
$\gamma = 0$	17.44	2.70	reject H_0
$\delta_0 = \delta_1 = \delta_2 = \delta_3 = 0$	14.90	8.76	reject H_0
$\delta_1 = \delta_2 = \delta_3 = 0$	14.18	7.04	reject H_0
(b) 1994–2000 data (Equations 6 and 8)			
No time trend in Equation 8	8.43	3.86	fail to reject H_0
$\gamma = \delta_0 = \delta_1 = \delta_2 = \delta_3 = 0$	117.76	12.59	reject H_0
$\gamma = 0$	20.48	2.7	reject H_0
$\delta_0 = \delta_1 = \delta_2 = \delta_3 = \delta_4 = 0$	187.9	11.07	reject H_0
$\delta_1 = \delta_2 = \delta_3 = \delta_4 = 0$	111.44	9.49	reject H_0

Note: The critical values for the hypotheses are obtained from Table 1 of Kodde and Palm (1986).

($\delta_i = 0$ for all $i > 0$) in equations (7) and (8) are both rejected, as is $\delta_i = 0$ for all i . The null hypothesis that

$$\gamma = \frac{\sigma_u^2}{(\sigma_v^2 + \sigma_u^2)} = 0$$

in Equations 5 and 6, or that inefficiency effects are not stochastic, is also rejected. Thus the results indicate that for the two estimated models for 1990–1996 and 1994–2000 that stochastic effects and technical inefficiency are important factors explaining vessel performance.

V. EMPIRICAL RESULTS

Maximum likelihood estimates of the model were obtained using FRONTIER 4.1 (Coelli, 1996).¹⁶ The program itself follows a three-step procedure. OLS estimates are first obtained and then a grid search is used to evaluate a likelihood function for values of γ between zero and one, with adjustments to OLS estimates of β_0 and σ^2 . All other values of β are restricted to be zero in this step. Finally, the best likelihood values selected in the grid search are used as starting values in a quasi-Newton iterative procedure to form maximum likelihood estimates at a point where the likelihood function obtains its global maximum.

Results for the model using 1990–1996 data (Equations 5 and 7) are reported in Table 4a while results using the 1994–2000 data (Equations 6 and 8) are given in Table 4b. All input variables for the stochastic frontier production function in Table 4a are significant at the 10% level with the exception of crew size. All inputs in the stochastic production frontier in Table 4b are significant at the 1% level.

Given the fecundity and short-lived nature of prawns, managers of the NPF have assumed that future stock size

is largely independent of the amount of fishing effort on adult stock, with the escape of spawners highly resilient to recruitment overfishing (Staples and Maliel, 1994). Nevertheless, recent catches below expectations have generated concern by the regulator that stock size may be falling. The estimates presented in Tables 4a and 4b lend some support to this concern. After allowing for weather effects, the time trend for the catch of banana prawns is highly significant for both Equations 5 and 6, indicating a 5% and 8% negative growth rate in output over the period 1990–1996 and 1994–2000. This decline is suggestive of a declining resource stock and is robust to alternative specifications of the models.

Results for the technical inefficiency model indicate that A-units and gear length are both significant at the 5% level for the 1990–1996 data, but the variable skipper is not. A-units have a significant negative effect on technical inefficiency or a positive effect on technical efficiency while gear length has a negative effect on technical efficiency. The results are similar using the 1994–2000 data where the components of A-units, hull units and engine power are both significant and negative implying they have a positive effect on technical efficiency. Fishing effort, defined as the number of fishing days, also has a significant and positive effect on technical efficiency while the headrope gear length has a significant and negative effect on technical efficiency. For both Equations 5 and 6 the value of

$$\gamma = \frac{\sigma_u^2}{(\sigma_v^2 + \sigma_u^2)}$$

exceeds 0.80 and is significant at the 1% level, implying that a substantial proportion of the variation across vessels in both periods is due to technical inefficiency.

¹⁶ Identical estimates were also obtained using GAUSS. The GAUSS program was also used to derive diagnostic tests.

Table 4. *Parameter estimates of the stochastic production frontier and technical inefficiency models*

	Coefficient	Asymptotic <i>t</i> -ratio
(a) 1990–1996 data (Equations 5 and 7)		
Stochastic production frontier		
Constant	6.42*** (0.97)	6.59
Crew	−0.10 (0.19)	0.51
Effort	0.38*** (0.15)	2.40
Gear length	0.20* (0.11)	1.88
Fuel	0.27** (0.13)	2.18
Time trend	−0.05** (−0.02)	2.24
Year 1990	−0.62*** (0.13)	4.87
Year 1992	−0.57*** (0.10)	5.90
Year 1994	−0.62*** (0.09)	6.84
Technical inefficiency model		
Constant	2.91 (3.78)	0.77
A-unit	−1.52** (0.95)	1.60
Head rope length of gear	1.53** (0.85)	1.80
Skipper	0.73 (0.92)	0.79
Sigma-squared	0.647*** (0.12)	5.58
Gamma	0.806*** (0.065)	12.32
Ln (likelihood)	−149.71	
Mean technical efficiency	0.725	
(b) 1994–2000 data (Equations 6 and 8)		
Stochastic production frontier		
Constant	5.09*** (0.42)	11.99
Effort	0.74*** (0.03)	27.03
Engine power	0.25*** (0.09)	2.72
Head rope length of gear	0.62*** (0.13)	4.82
Year 1994	−0.85*** (0.04)	19.78
Year 2000	−0.13*** (0.05)	8.96
Time trend	−0.08*** (0.01)	8.96
Technical inefficiency model		
Constant	14.74*** (3.76)	3.91
Head rope length of gear	3.00* (1.60)	1.88
Hull units	−1.96*** (0.58)	2.23

(continued)

Fishing effort	−1.64*** (0.47)	3.46
Engine power	−1.78*** (0.78)	2.26
Sigma-squared	0.82*** (0.28)	2.90
Gamma	0.93*** (0.03)	34.54
Ln (likelihood)	310.33	
Mean technical efficiency	0.774	

Notes: *, ** and *** denote statistical significance at the 0.10 level, 0.05 and 0.01 level respectively.

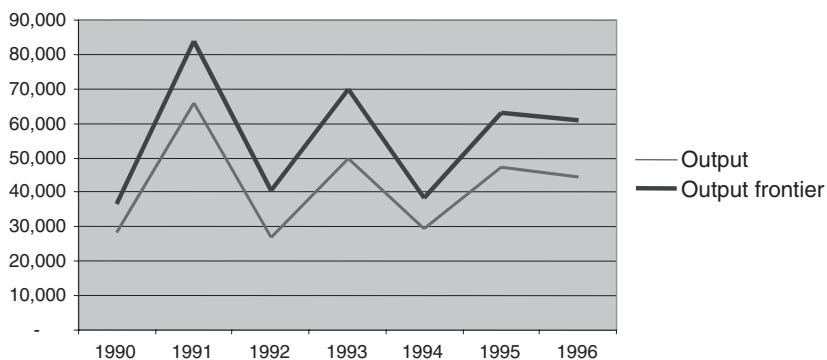
Numbers in parentheses are asymptotic standard errors.

Efficiency effects

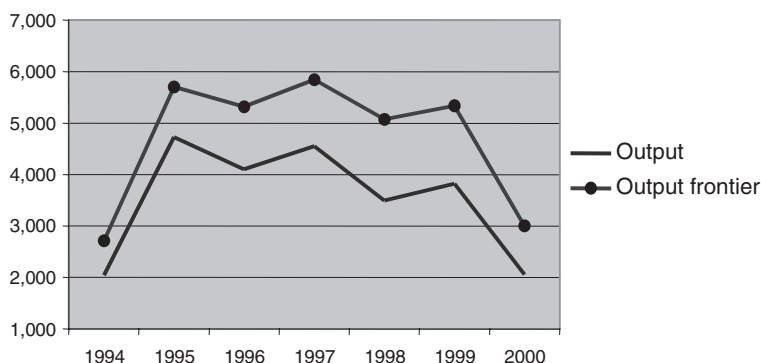
Figures 1a and 1b depict average (over all vessels) annual output and estimated frontier output for banana prawns in the sample. The figures illustrate the decline in mean technical efficiency over the two samples. The low values for average annual output in Fig. 1(a) for the years 1990, 1992 and 1994 conforms to the results on weather dummy variables in Table 4a. All coefficient values for these years are negative, relatively large in magnitude and highly significant. A similar result is found in Fig. 1(b) for the years 1994 and 2000 suggesting that weather effects are important explanatory variables in banana prawn production. In other words, weather dummies in the stochastic production frontiers given by Equations 5 and 6, condition both estimated output elasticities and the level of estimated maximum efficient output. The output frontier accordingly generates low average annual values in the years 1990, 1992 and 1994 from Equation 5 and for 1994 and 2000 from Equation 6.

Both data sets provide similar levels of mean technical efficiency of 0.725 and 0.774 for the periods 1990–1996 and 1994–2000. Very few boats in either data set have technical efficiencies in excess of 0.90 and most vessels lie in the range 0.61–0.80. More importantly, in terms of the effects of input controls, is the decline in mean technical efficiency over the sample periods. Given the estimated results for technical inefficiency in Table 4a (an increase in A-units will increase technical efficiency while an increase in gear length will decrease technical efficiency), the fall appears to be the result of policy measures designed to decrease the number of A-units in this fishery (with a target of 54,000 class A-units by 1993). In turn, this has led to an unintended increase in a non-regulated input, denoted by gear length, which has reduced technical efficiency.

The deleterious effect of A-unit controls is supported by the results using the 1994–2000 data for the entire fleet. Technical efficiency trends downwards over this period falling from 75.1% in 1994 to 68.2% in 2000. Moreover, technical efficiency is, on average, lower the smaller the A-units of vessels, as shown in Table 5. In addition, the



(a)



(b)

Fig. 1. (a) Average annual output (kg) and frontier output (Equations 5 and 7) for banana prawns using 1990–1996 data. (b) Actual annual output (tons) and frontier output (Equations 6 and 8) for banana prawns using 1994–2000 data

average A-units per vessel fell through the 1990–1996 period that coincides with the buy-backs and *pro rata* reductions instituted by the fisheries regulator. In other words, the attempts to control fishing capital in the fishery, by reducing A-units, have prevented fishers from increasing their technical efficiency.

Following the reductions in the controlled input (A-units), it also appears that fishers have substituted engine power and hull size for increased gear headrope length. For instance, in every year since 1993 the average headrope length has risen and rose from 23.12 m in 1993 to 26.06 m in 2000. Thus, regulatory imposed restrictions on A-units prevented fishers from increasing technical efficiency while input substitution to unregulated gear has had the effect of reducing technical efficiency. Combined, the input regulations have resulted in increased fishing power for the fleet over the 1990–2000 period, but reduced technical efficiency.

VI. INPUT CONTROLS AND EFFICIENCY

Wilén (1979) observed a quarter of a century ago that input controls may fail to limit fishing effort because of input substitution. Subsequently, empirical studies using data from the New England otter trawl fishery (Squires, 1987),

Table 5. Size of boat and average technical efficiency (Equations 6 and 8) using 1994–2000 data

A-units	TE	No. of observations
Less than 375	0.62	234
From 375 to 475	0.79	408
Greater than 475	0.81	207

VIII division of the European anchovy fishery (Del Valle *et al.*, 2003), the British Columbia salmon fishery (Dupont, 1991), Tasmanian rock lobster fishery (Campbell, 1991) and the English beam trawl fishery (Pascoe and Robinson, 1998), among others, have shown the ability of fishers to substitute among inputs. In the case of the British Columbia salmon fishery, input controls and limited entry have resulted in rent dissipation (Dupont, 1990) and there is evidence this has contributed to stagnation in productivity growth in the New England groundfish fishery over the period 1983–1993 (Jin *et al.*, 2002). Pascoe and Robinson (1998) have also shown that restrictions on engine size on vessels in inshore waters provided an incentive for vessels of a certain size to change their fishing location.

Two important studies that have focused on technical efficiency and regulatory structure in fisheries include

Kirkley *et al.* (1995) and Pascoe and Coglan (2002). The former study used data from ten vessels over the period 1987–1990 to predict the impact of limited entry and input restrictions on the mid-Atlantic sea scallop fishery. They found that restrictions on crew size and an annual days-at-sea limit could increase average technical efficiency while restrictions on dredge size would leave technical efficiency unaffected. Pascoe and Coglan (2002) find that unmeasurable inputs in the form of differences in skipper and crew skill explain a substantial part of the variation in technical efficiency across vessels. They also observe that limits on days-at-sea, or other means to limit fishing effort, may be circumvented by improvements in skipper competency.

The results from the NPF, however, are the first to show that average technical efficiency was directly constrained by input controls (A-units) and that technical efficiency declined due to input substitution (to gear headrope length). The study provides convincing evidence of the potentially negative effects of input controls on technical efficiency, even in the absence of input substitution, and the necessity for testing the influence of inputs on vessel-level performance. In general, the findings support alternative forms of regulation, such as individual output controls (Grafton *et al.*, 1996) or a mix of input and output controls, that allow fishers to choose their input mix and levels while maintaining the sustainability of stocks.

VII. CONCLUDING REMARKS

The paper provides the first ever *ex post* estimates of the effects on technical efficiency of input controls in a fishery. Using individual vessel data from the northern prawn fishery of Australia for the years 1990–1996 and 1994–2000, a stochastic production frontier is estimated to analyse the efficiency impacts of input controls on vessel capacity (engine and vessel size).

The results indicate that technical efficiency depends negatively on an unregulated input, gear headrope length, but positively on a measure of vessel size and engine power that is used to control fishing effort. This finding is significant because restrictions over vessel size and engine power were used in the fishery during the 1990–2000 period to reduce fishing effort so as to prevent overharvesting.

The study is important because it shows that the substitution to unregulated inputs (gear headrope length) from regulated inputs (vessel size and engine power) has contributed to a decline in overall technical efficiency. It suggests that the use of input controls, especially limits on engine and hull size, have been contrary to the stated objective of the fishery regulator to maximise economic efficiency. The paper finds that fishery managers need to pay particular attention to the effects on efficiency of the inputs that are controlled and input substitution. An important

implication of the study is that if economic efficiency is a goal of fisheries management then alternatives to input controls, such as individual transferable quotas or a mix of input and individual output controls, are worthy of consideration.

ACKNOWLEDGEMENTS

The authors would like to thank Steve Beare, Peter Gooday, Janet Bishop and Bill Venables for data access and helpful comments on this work and the nature of the Australian northern prawn fishery in general. We are also grateful for helpful comments by Kevin Fox and Dale Squires. Funding from the Fisheries Resources Research Fund is also gratefully acknowledged. This paper is dedicated to the memory of David Timcke, a colleague and friend.

REFERENCES

- Agriculture, Fisheries and Forestry Australia (AFFA) Bureau of Rural Sciences (2000) *Fishery Status Reports, 1999*, Commonwealth of Australia, Canberra.
- Aigner, D. J., Lovell, C. A. K. and Schmidt, P. (1977) Formation and estimation of stochastic frontier production function models, *Journal of Econometrics*, **6**, 21–37.
- Alam, M. F., Omar, I. H. and Squires, D. (2002) Sustainable fisheries development in the tropics: trawlers and licence limitation in Malaysia, *Applied Economics*, **34**, 325–37.
- Australian Bureau of Agricultural and Resource Economics (ABARE) (2000a) *Indicators of the Economic Performance of Australian Fisheries*, Canberra.
- Australian Bureau of Agricultural and Resource Economics (ABARE) (2000b) *Australian Fisheries Survey Report*, Canberra.
- Australian Fisheries Management Authority (AFMA) (2001) *Northern Prawn Fishery: Fact Sheet*, Canberra.
- Battese, G. E. and Coelli, T. J. (1988) Prediction of firm-level technical efficiencies with a generalized frontier production function and panel data, *Journal of Econometrics*, **38**, 387–99.
- Battese, G. E. and Coelli, T. J. (1992) Frontier production functions, technical efficiency and panel data: with applications to paddy farmers in India, *Journal of Productivity Analysis*, **3**, 153–69.
- Battese, G. E. and Coelli, T. J. (1993) A stochastic frontier production function incorporating a model for technical inefficiency effects, Working Papers in Econometrics and Applied Statistics No. 69, Department of Econometrics, University of New England, Armidale.
- Battese, G. E. and Coelli, T. J. (1995) A model of technical inefficiency effects in a stochastic frontier production for panel data, *Empirical Economics*, **20**, 325–32.
- Battese, G. E. and Corra, G. S. (1977) Estimation of a production frontier model: with application to the pastoral zone of Eastern Australia, *Australian Journal of Agricultural Economics*, **21**, 169–79.
- Campbell, H. F. (1991) Estimating the elasticity of substitution between restricted and unrestricted inputs in a regulated fishery: a Probit approach, *Journal of Environment Economics and Management*, **20**, 262–74.

- Coelli, T. (1996) A guide to FRONTIER version 4.1: a computer program for stochastic frontier production and cost function estimation, CEPA Working paper, University of New England, Armidale.
- Coelli, T. and Battese, G. E. (1996) Identification of factors that influence the technical inefficiency of Indian farmers, *Australian Journal of Agricultural Economics*, **40**, 19–44.
- Dann, T. and Pascoe, S. (1994) A bioeconomic model of the northern prawn fishery, ABARE Research report, Canberra.
- Del Valle, I., Astorkiza, I. and Astorkiza, K. (2003) Fishing effort validation and substitutions possibilities among components: the case study of the VIII division European anchovy fishery, *Applied Economics*, **35**, 63–77.
- Die, D. and Bishop, J. (1998) Final report: catch and effort analysis for the Northern prawn fishery, CSIRO Research report, Canberra.
- Dupont, D. P. (1990) Rent dissipation in restricted access fisheries, *Journal of Environmental Economics and Management*, **19**, 26–44.
- Dupont, D. P. (1991) Testing for input substitution in a regulated fishery, *American Journal of Agricultural Economics*, **73**, 155–64.
- Førsund, F. F., Lovell, C. A. K. and Schmidt, P. (1980) A survey of frontier production functions and of their relationship to efficiency measures, *Journal of Econometrics*, **13**, 5–25.
- Grafton, R. Q., Squires, D. and Fox, K. J. (2000) Private property and economic efficiency: a study of a common-pool resource, *The Journal of Law and Economics*, **43**, 679–713.
- Grafton, R. Q., Squires, D. and Kirkley, J. E. (1996) Private property rights and the crises in world fisheries: turning the tide?, *Contemporary Economic Policy*, **14**, 90–9.
- Green, W. H. (1993) The econometric approach to efficiency analysis, in *The Measurement of Productive Efficiency: Techniques and Applications* (Eds) H. O. Fried, C. A. K. Lovell and S. S. Schmidt, Oxford University Press, New York, pp. 68–119.
- Hannesson, R. (1983) Bioeconomic production function in fisheries, *Canadian Journal of Fisheries and Aquatic Sciences*, **40**, 968–82.
- Jin, D., Thunberg, E., Kite-Powell, H. and Blake, K. (2002) Total factor productivity change in the New England groundfish fishery: 1964–1993, *Journal of Environmental Economics and Management*, **44**, 540–56.
- Kirkley, J. E., Squires, D. and Strand, I. E. (1995) Assessing technical efficiency in commercial fisheries: the mid-Atlantic sea scallop fishery, *American Journal of Agricultural Economics*, **77**, 686–97.
- Kodde, D. A. and Palm, F. C. (1986) Wald criteria for jointly testing equality and inequality restrictions, *Econometrica*, **54**, 1243–48.
- Kong, X., Marks, R. E. and Wan, G. H. (1999) Technical efficiency, technological change and total factor productivity growth in Chinese state-owned enterprises in the early 1990s, *Asian Economic Journal*, **13**, 267–81.
- Kumbhakar, S. C., Ghosh, S. and McGuckin, T. (1991) A generalized production frontier approach for estimating determinants of inefficiency in US dairy farms, *Journal of Business and Economic Statistics*, **9**, 279–86.
- Kumbhakar, S. C. and Lovell, C. A. K. (2000) *Stochastic Frontier Analysis*, Cambridge University Press, Cambridge.
- Meeusen, W. and van den Broeck, J. (1977) Efficiency estimation from Cobb–Douglas production functions with composed error, *International Economic Review*, **18**, 435–44.
- Pascoe, S. and Coglean, L. (2002) The contribution of unmeasurable inputs to fisheries production: an analysis of technical efficiency of fishing vessels in the English Channel, *American Journal of Agricultural Economics*, **84**, 585–97.
- Pascoe, S. and Robinson, C. (1998) Input controls, input substitution and profit maximisation in the English beam trawl fishery, *Journal of Agricultural Economics*, **49**, 16–33.
- Senate Rural and Regional Affairs and Transport Committee (2000) *Northern Prawn Fishery Amendment Management Plan (NPFAMP) 1999*, Commonwealth of Australia, Canberra.
- Sharma, K. R. and Leung, P. (1999) Technical efficiency of the longline fishery in Hawaii: an application of a stochastic production frontier, *Marine Resource Economics*, **13**, 259–74.
- Squires, D. (1987) Public regulation and the structure of production in multiproduct industries: an application to the New England trawl industry, *RAND Journal of Economics*, **18**, 232–47.
- Staples, D. J. and Maliel, M. M. (1994) Catch prediction in the northern prawn fishery: have they stood the test of time?, *Agricultural Systems and Information Technology*, **6**, 49–51.
- Staples, D. J. and Vance, D. J. (1986) Emigration of juvenile banana prawns, *Penaeus merguensis*, from a mangrove estuary and a recruitment to offshore areas in the wet–dry tropics of the Gulf of Carpentaria, Australia, *Marine Ecology Progress Series*, **27**, 239–52.
- Taylor, B. and Die, D. (Eds) (1999) *Northern Prawn Fishery: 1997 and 1998 Fisheries Assessment Report*, Australian Fisheries Management Authority, Canberra.
- Timcke, D., Harrison, S., Bell, R. and Chapman, L. (1999) Applying ESD principles in the northern prawn fishery: an economic assessment, ABARE report to the Fisheries Resources Research Fund, ABARE, Canberra.
- Townsend, R. E. (1990) Entry restrictions in the fishery: a survey of the evidence, *Land Economics*, **66**, 359–78.
- Wilén, J. (1979) Fisherman behaviour and the design of efficient fisheries regulation programmes, *Journal of the Fisheries Research Board of Canada*, **36**, 855–8.