

Appendix A: Steineken Tax

Funding Infrastructure in a Tourism-Dependent Economy



Steineken: Steinlager™ + Heineken™.

Generic term for beer.

Given the dominance of imported brands, a person holding a green bottle is likely to be drinking a *Steineken*.

Genesis

In the first of the To Tatou Vai Authority Bill vaka meetings (28 July 2020), TTV board member Sam Napa Snr referred to the amount of money spent each year on imports; suggesting that if we pay '\$14m for alcohol', then the public should not object to paying water charges.

The Steineken Tax concept proposes the cost of water infrastructure to be part-funded by duty or tax on discretionary household goods — alcohol / glass bottles.

Definitions

- **Cook Islands Investment Corporation (CIIC):** manager of Crown assets, buildings and infrastructure. Reports to MFEM.
- **Infrastructure Cook Islands (ICI):** state department previously responsible for roading, water, and waste management. Many of these functions are to be progressively transferred to To Tatou Vai based on the constitution of temporary holding company To Tatou Vai Ltd.
- **Ministry of Finance and Economic Management (MFEM).**
- **Steineken:** Given the dominance of imported brands, if you see a person at a social engagement holding a green bottle, it's a safe bet they're drinking either a *Steinlager* or a *Heineken*.
- **Te Mato Vai Project (TMV)** project to upgrade Rarotonga's ring main and water treatment infrastructure, 2014—.
- **Te Mato Vai Project Management Unit (PMU):** Operated by New Zealand consulting firm GHD.
- **To Tatou Vai (TTV)** the new water authority, currently holding company To Tatou Vai Ltd.
- **To Tatou Vai Authority Bill (TTVA Bill)** proposed legislation to establish To Tatou Vai as a financially independent / self-funding statutory corporation.

Economic context

All values in New Zealand dollars/NZD.

- Gross minimum wage: \$8 / hr (1 July 2020)
 - Semi-rural, tropical pacific lifestyle.
 - Water-use includes subsistence home plantations; also providing supplementary fruit and vegetables to the local market.
 - Water used for recreation: home pools, non food-crops.
 - Cook Islands currently loosing 3% GDP/month due to border closures / Covid-19 (since March 2020).
 - The new water authority is not required to service the loans or depreciate the new Te Mato Vai water infrastructure. Loans and depreciation of the Te Mato Vai system are the responsibility of CIIC.
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Public response to the TTVA Bill

- At vaka meetings, the public dismantled the proposed funding model for new water authority: removed periodic charges, participation no longer compulsory, use of rainwater no longer at minister's discretion, etc.
- Public and agricultural users have requested 66(c) be removed - this clause seeks to assert authority over all water sources: groundwater, desalination plants, etc.
- Larger volume commercial water users, e.g. resorts, likely to invest in rainwater harvesting or bores to minimise overheads. Chair made reference to similar with the introduction of net metering for solar: commercial operators had capital to invest, blocking domestic connections.
- TTVA Bill select committee report to be tabled in Parliament, Sept 2020.

Water Authority Annual Expenditure

ICI Water Division

- Previous annual budget for the Water Division - maintaining old network.
- Annual appropriation for maintenance and staff \$750k (2014).
- Funded from the public purse/public taxes.
- One-off, new connection fee, but no user charges.

To Tatou Vai

- New network
- Approx annual costs for To Tatou Vai / new water authority: \$2.8m
- Staffing: \$1.6m / Operations: \$1.2m (presumed to be inclusive of chemical supply)
- User pays proposed

Concept notes

Water infrastructure to be part-funded by duty or tax on discretionary household goods alcohol / glass bottles. The draft *Solid and Hazardous Wastes Bill 2019/20* proposes advanced disposal fee and return refund.

- **Geared to tourism-based economy;** more tourists (or longer stays) = more alcohol consumed.
- **Preferred over departure or bed tax,** as visitors only take up only one bed; but take up many beers. Post Covid-19, longer stays predicted (fewer departures), room rate increase cumulative/destination could be perceived as exploitative.
- **Revenues collected over peak tourism season will fund infrastructure over shoulder season.**
- **Refund on bottle return. Locals could be 'exempt' from the tax** if they return clean, unbroken bottles to a collection depot.
- Managed depot returns/refunds would mean that **returned bottles will be clean and free of contaminants** (e.g. lids, cigarette butts). Reduces the likelihood of damage to glass crusher.
- Depot refund would encourage **active recycling**, fewer bottles left on beaches.
- Bottle drives an opportunity for **community fundraising**.
- Adding a disposal fee as part of the Steineken Tax, revenue collected could also be allocated to the **servicing and maintenance of the ICI glass crusher**, and requirement for importers to part fund a returns depot - perhaps only at set times, once a week.
- **Crushed glass can be reused as construction fill** - fine aggregate for concrete pads rather than mining sand from local beaches. Might be possible to use in concrete block casting too (further research required).
- (Slight) increase in price of bottled beer would enable local breweries to be more competitive - as they can supply product in kegs, or refill flasks, exempt from tax.

Bottle / glass volume

- ICI estimates 30 cubic meters of glass per week
- By approximate volume/number of standard-size glass bottles; a tax of 10 cents per bottle would net \$200k per year.
- Tax revenues could increased by: higher fee; adding to sugar drinks, tobacco, etc.

FUNDING MODELS



DEPARTURE TAX

- Longer stays
- One-off
- Ticket price++
- Off season



BED TAX

- Air BnB?
- Collection
- Room rate++
- Off season



STEINEKEN TAX

- Bottles/cans
- Local refund
- Recycling
- Match demand

STEINEKEN TAX

*'A visitor takes up only **one bed**, but takes up **many beers**.'*



- Geared to variable demand / tourism-based economy
- More visitors = more infrastructure funding
- Tourists / Returning families
- ICI: 30 cubic meters of glass each week.
- @10¢ per bottle = \$200k
- Aluminium, plastic, sugar drinks, tobacco

Solid and Hazardous Wastes Bill 2019/20

Provisions under the Solid and Hazardous Wastes Bill set out mechanisms for importers to be charged an advance disposal fee, return depot, and consumer refund on returns. The same framework could be used to implement the Steineken Tax.

33 Advance disposal fee

(1) A person who imports goods (an importer) must pay the Ministry the prescribed amount set for the item or class of items, to cover the cost of disposal of those goods.

(2) Subsection (1) does not apply in relation to any item or class of items that is exempted from the payment of advance disposal fees under regulations.

(3) Payment of the prescribed fee must be made to the Ministry within 1 month after the date on which the goods are released by Customs, or on any earlier or later prescribed date.

(4) Despite anything in the Price Control Act 1966, an importer of goods may add the amount of the fee on each item imported to the retail price of the goods plus additional Value Added Tax (if applicable).

34 Entitlements to refunds on items returned

A person in possession of any prescribed item on which an advance disposal fee has been paid is entitled to a refund in the prescribed amount, which may be less than the advance disposal fee, when the person gives the item

(a) to the Ministry at a collection depot at a prescribed place; or

(b) to any other person operating a collection depot at a prescribed place, with the authority of the Ministry.

Supplementary: Reduction of staffing and operational overheads

In addition to new sources of revenue, staff and operational costs can be better managed.

- **Diversion - only collecting clear streamwater** reduces or eliminates chemical cost, waste disposal and dependence. \$50k per intake to retrofit diversion systems (Mar 2020).
- **Implementation of remote monitoring systems** - costed at \$7.5k per intake. Staff will not need to directly access waterworks. Less upkeep required on access roads, vehicle maintenance.
- **Incentive-based director's fees** - minimal base fees paid, but collective bonuses paid for achieving community led management goals: zero (treatment) waste, reuse of (non-chemical) waste, catchment waterway stabilisation (vetiver grass riparian planting), drought resilience, achieving water standards, publication of geological research, ecosystem restoration, etc.

CHEMICAL COST



- **Supply:** \$500k/year (PACl + chlorine)



- **Staff:** PPE, monitoring, dosing, risk



- **Waste removal:** 1330 truck loads/year
- **Roading:** heavy vehicles, unsealed roads



- **Storage:** 10 shipping containers/month
- **Disposal:** Sludge not for agricultural use

DIVERSION



Diversion is physical system that monitors streamwater quality. Water treatment stops when water becomes muddy/cloudy; and resumes when water meets the required clarity standard. Rarotonga’s source water meets required standards in dry conditions.

Coagulation systems collect muddy water, then add chemicals to remove the mud. The by-product is a chemical waste / sludge that is not suitable for agricultural use.

References

- *Te Mato Vai - Stage 2 - Expert Independent Review.* Ministry of Justice. Mar 2020. This report provides estimates on PACI waste/sludge volume and operational assessment; costing for remote monitoring and diversion systems.
- 19 Jan 2014: *Te Mato Vai water consultations generates support and caution.* Cook Islands News. ...the Annual Budget appropriates funds...maintenance of the current water system including staff costs. For the current financial year, the allocation to the Water Division is \$750,000.
- *Presentation to the To Tatou Vai Select Committee.* Aug 2020. Te Vai Ora Maori.
- 15 Aug 2020: Landfill worker: ‘People can make my job easier by simply separating their waste’. Cook Islands News.
... they receive about 30 one-cubic-metre containers full of glass per week. About two of the containers crush down to fill one cubic metre bag of fine glass sand. Infrastructure is selling them for \$80 per bag.
- 27 Aug 2020: Turning beer into water. Cook Islands News