Effective Tax Policy Reform through Strategic Stakeholder Communication: Lessons from Australia

This article analyses the role of stakeholders in tax policy reform with reference to the Australian experience in introducing a resource rent tax that replaced the existing royalty based system. It concludes that effective communication with key stakeholders can enable policymakers to undertake successful tax reform agendas in a democratic society.

1. Introduction

Taxation reform is an important component of fiscal policy and many governments are considering such reforms in light of the current economic climate. In particular, countries, such as Australia, that have increased their budget deficits by way of fiscal stimulus packages designed to ameliorate the effects of the Global Financial Crisis (GFC), are looking for options to reduce their budget deficits and strengthen their economies. In recent years, many developed economies have experienced a rapid increase in their budget deficits and economic instability. The present fiscal instability of the European Union, in particular those Member States in the Economic and Monetary Union, has made governments acutely aware of the risk that budget deficits can pose. Accordingly, pressure for fiscal consolidation is compelling governments to seek new revenue in the coming years. Even though Australia fared comparatively well in the GFC by virtue of its relatively manageable fiscal deficit and the strength of its underlying economy, which allowed it to continue exporting minerals to China and India, the country’s debt to GDP ratio has attracted some attention. Mining exports are thought to have been a major contributor to GDP and mining-related industries have become a high priority on the policy agenda of many countries.

What causes governments to reform their tax policy? The International Monetary Fund (IMF) has shown that there are a number of drivers of tax policy reform, including:

- globalization of economic activity: increased cross-border mobility has far-reaching consequences for tax policy design, as it accentuates the need for continuous adaptation and deepened international cooperation;
- employment creation: the need to remove labour tax impediments to labour demand and supply has been a high priority on the policy agenda of many countries;
- change of views on equity-efficiency trade-offs: more attention to efficiency aspects of taxation may have been a driving factor behind a number of recent policy trends;
- herd behaviour: countries often adopt tax policy reforms that, for some reason, become fashionable with economists and politicians at different points in time, such as in regard to VAT;
- initiatives to strengthen regional economic policy coordination: this generally involves strengthening economic development and competitiveness of regional groupings;
- devolution of political and fiscal powers to lower (or higher) levels of government: a common concern amongst countries is the extent to which taxes should be raised centrally and shared with regional governments - with regard to mineral tax policy, the centralization of natural resource revenues is ordinarily the most desirable arrangement;
- environmental concerns: popular concerns regarding climate change have resulted in stronger pressures for the application of remedial fiscal instruments;
- cyclical factors: governments experiencing an easing or tightening of budgetary constraints are likely to adjust their fiscal policy accordingly, and, in particu-
lar, the current economic downturn and fall in commodity prices, caused by the recent GFC, may make it cheaper for governments to reform their natural resource taxation policy now than in more economically robust times; and

– rising commodity prices: increased natural resource exploration is caused by a general upward trend in commodity prices.

The broad-based rise in natural resource prices in recent years has led to increased attention to natural resource taxation. The discourse surrounding resource taxation has largely centred on enhancing revenue transparency, improving revenue management and avoiding the “resource curse.” Although there are few areas of economic policymaking in which the returns on good decisions are as high and the punishment for bad decisions as cruel, as the management of natural resource wealth, less attention has been paid to appropriate fiscal regimes for resource extraction. Because of its exhaustibility, natural resource extraction generates “economic rent”, the majority of which is retained by the mining company. Given the existence of this rent, countries with large natural resource deposits can benefit substantially, but it is the government’s fiscal policy that determines whether or not these natural resource deposits are a blessing or a curse. This depends on how the economic rent is allocated between the government and the mining company, and how these rents are used.

The phenomenon that natural resources, although generating significant revenues, may also have a negative effect on long-term economic growth, is referred to as the natural resource curse. In order to counteract the natural resource curse, a government should attempt to retain some of the revenue generated by mining companies for future generations and, to this end, fiscal reserves are intended to address these intergenerational concerns. Accordingly, resource tax policy is increasingly being regarded as a potentially innovative way to link resource wealth and social development. It is more sustainable for a country to rely on sources of revenue other than mining, as these tend to be less volatile and less exhaustible. Mining is a cyclical industry and natural resource deposits are finite. The reality is that countries that are currently heavily reliant on natural resource revenues may well suffer a serious revenue shock in the future when its natural resource deposits are exhausted. This is particularly important for developing countries, as reliance on non-mining revenue bases reduces the economy’s vulnerability and subsequently increases the sustainability of public expenditure.

Phillip Daniel, Deputy Head of the Tax Policy Division of the IMF, recently cautioned that unstable fiscal regimes in mineral rich countries can significantly affect investor confidence. Frequently changing the tax system adds an element of unpredictability to the system that may seriously affect future development projects. This is particularly so, as natural resource projects involve high sunk costs, long production periods and a high-risk premium. It is for this reason that many policymakers are reluctant to change the fiscal regime surrounding natural resource wealth, as they fear that investors may move their funds to a region with a more attractive fiscal regime. Accordingly, mineral tax policy reform can be a delicate balancing act. Policymakers are also required to design a fiscal regime that will be attractive to investors, whilst providing the government with a fair share of economic rent.

There are several direct and indirect tax instruments commonly imposed by resource-rich countries on mining companies to collect their economic rent. Direct tax instruments include:

– corporate income tax: most countries include mineral projects within the standard corporate income tax regime, but the existence of economic rent associated with natural resources is generally thought to justify a separate fiscal regime;

– progressive profit tax: this involves adding a stepped tax rate to the corporate income tax to allow the government to share in the profits if a mineral project becomes very profitable; and

– resource rent tax: this form of tax directly links the revenue collected by the government to the economic rent generated by mining projects by linking the amount of tax to the rate of return on the project.

Indirect tax instruments include royalties, import duties and VAT. However, of these, royalties have historically been the most important instrument for taxing mineral extraction activities. Although they are attractive to a gov-
ernment, as they ensure an up-front revenue stream as soon as production starts, they are generally considered to be distortive and inefficient, as royalty charges increase the marginal cost of production. This raises the cut-off grade, leaving otherwise profitable ore or petroleum undeveloped.25

The distortionary nature of royalty charges is the reason why resource rent taxes are generally considered to be preferable, as they are a more efficient taxation option.26 Rent-based profit taxes adjust to changes in profitability and, therefore, do not increase the marginal cost of production, thereby making the exploitation of a greater proportion of natural resource deposits more viable than royalty charges do.27

It is impossible to design a single optimal fiscal regime suitable for all mineral projects,28 as appropriate fiscal regimes for the taxation of mineral wealth depend very much on the transparency of the governance structures in place.29 For a developed and resource rich country like Australia the introduction of a resource rent tax to replace the current ad valorem or royalty based system has long been considered by economists to be a “potentially robust source of relatively non-distorting revenue”.30 The introduction of such a tax was also intended to allow for the redistribution of the wealth gained from mining to less resource-rich states.

It was against this background that the Henry Tax Review31 proposed the taxation of mineral rents on 2 May 2010. The original proposal involved a resources super profits tax (RSPT). The RSPT was intended to replace the existing mining royalties collected by the state governments with a 40% tax on all profits above the 6% rate of return. The 6% rate of return is the 10-year government bond rate, otherwise known as the risk-free return on capital. A 40% rebate for all losses incurred would have been paid, which it was assumed would have reduced the risks of the mining project. As the RSPT would have been payable only if the project became profitable, it was assumed not to affect the viability of marginal projects. The four main arguments in favour of the RSPT were: (1) the natural resource curse; (2) Australia’s “two-speed economy”; (3) the need to encourage marginal projects; and (4) the necessity to act in line with international trends.32,33

It is notable that the IMF expressly approved34 of the Australian government’s proposed introduction of the RSPT, noting that it would help Australia make the most of the resource boom.35 This is particularly important given that the Australian economy is heavily reliant on Chinese demand for commodities. It is estimated that the contribution of the mining boom to Australia’s economy will rise to AUD 42 billion in 2011-12.36 Accordingly, the Australian economy would probably weaken if there was a slowdown in China37 or a fall in commodity prices.38 The mining boom is likely to continue to appreciate the Australian dollar by 15% to 20%, thereby negatively affecting the agriculture and tourism industries. Some economists believe that the mining tax should be used to offset the “resource curse effect”, where Australia focuses on mining at the expense of other industries.39

The factors motivating the Australian government to propose a resource rent tax in the form of the RSPT are also the reasons why this proposal gave rise to such voter discontent. Revenue from the mining sector accounts for 8% of Australia’s GDP40 and contributes over 80% of total commodities exports, close to 70% of total merchandise exports and 56% of total goods and services exports, as well as over one third (37.6%) of Australia’s total exports.41 Accordingly, it was believed that any reduction in the revenues of mining companies would jeopardize the Australian economy itself. Many argued that the detriment to the mining industry would have been so severe that it could not have been justified by any supposed long-term benefit. As the mining industry is a massive part of the Australian economy, imposing a tax based on economic considerations alone is not enough and social and political factors had to be taken into account, such as employment in regional communities.42

The proposed introduction of the resource rent tax also attracted significant criticism from mining companies because of the Australian government’s perceived unwillingness to negotiate key details of the tax with them.

25. Id.
26. Garnaut & Clunes-Ross, supra n. 16.
27. IMF, supra n. 22.
28. Id.
29. For example, royalties may be a more suitable resource tax system for countries in Africa, as they lack the governance structures necessary to collect the more complicated profits-based tax. In this regard, see Lambrechts, supra n. 5.
30. IMF/Cottarelli, supra n. 1 and Garnaut & Clunes-Ross, supra n. 16.
36. Uren, supra n. 34.
38. Uren, supra n. 34.
41. Id.
particularly as many of the assumptions made by the RSPT were considered to be inconsistent with business reality. Many mining companies believed that the Australian government should have first engaged and negotiated with stakeholders to help build a winning coalition to develop the reforms, rather than announcing the resource rent tax as a finalized package. A media campaign opposing the tax was subsequently launched by the mining companies. This political unrest produced a highly unorthodox, but successful, leadership challenge in the first term of a democratically elected Prime Minister, made more remarkable by the fact that the incumbent Prime Minister had been elected to power in a landslide victory not three years earlier.

After the removal of the incumbent Prime Minister, a significant compromise was negotiated between the new Australian Prime Minister and the three biggest mining companies, BHP Billiton, Rio Tinto and Xstrata, in the form of the mineral resource rent tax (MRRT). The new MRRT involves a 30% tax on all profits above the 12% rate of return, less a 25% extraction allowance, which is significantly more generous to mining companies than the arrangement originally proposed by the RSPT. The difficulties experienced by the Australian government in implementing significant taxation policy reform highlight the role that stakeholders play in policy formulation and negotiation in democratic countries.

2. The Role of Stakeholders in Tax Policy Reform

Who are stakeholders and why are they important? Stakeholders may be thought of as those groups who share a common interest in engaging with and influencing the political process to protect their economic interests, avoid negative externalities or maintain political power. As resistance to change is an inevitable part of the tax reform process, understanding the various lobby groups and the interactions between them is crucial in negotiating successfully with them. In particular, identifying the winners and losers of the reform will assist in making the reform successful. Any tax policy formulated through a process of consultation is also regarded as more legitimate, assuming its outcome meets the preferences of a majority of interest groups who are affected by the decision. In addition, such a process adds transparency and accountability to the policy-making process. Further, governments may need to engage with stakeholders regarding operational issues, as they have practical knowledge, experience and expertise in the industry.

For example, key stakeholders in regard to the Australian government’s proposed mining tax could include the Commonwealth Department of Treasury, the state governments of Queensland and Western Australia, which are mining states that currently collect royalties, large mining companies, emerging mining companies, superannuation funds, mine workers, unions, people living in mining towns, people living in non-mining states of Australia, international resource buyers, future generations, academics and the media.

With such a multitude of stakeholders, how do governments identify which are the most important? Mitchell, Agle and Wood (1997) proposed the following three factors that should be considered to determine the importance of stakeholders’ claims:

1. the stakeholders’ power to influence decision-making: in a policymaking context, this may be control over financial resources or control over public opinion;
2. the legitimacy of their relationship to the government: a stakeholder should have something “at risk” from the proposed reforms; and
3. the urgency of their claim: this arises when the claim is of a time-sensitive nature and is important to the stakeholders.

The forgoing implies that stakeholders with the greatest interest in government policies should have the greatest say in their outcomes. This would make mining companies the most important stakeholders in a resource-rich country like Australia, as they are the ones most directly affected by the proposed mining tax. They are powerful by virtue of their control over natural resources, their business is affected by the proposed reforms and, as they are profit-making corporations, their revenues are very important to them. This explains why the advertising campaign, run by the mining companies opposing the Australian government’s proposed RSPT, was so successful and resulted in the negotiation of a compromise that was much more favourable to the mining companies.

However, the reality of a democratic government is that:

45. Sarker & Whalan, supra n. 33, at sec. 3.2.
46. Id., at sec 3.3. 
49. Sarker & Whalan, supra n. 33, at sec 1. 
50. Fidrmuc & Noury, supra n. 48.
53. R. Lozano, Proposing a Corporate Sustainability Stakeholder Typology (Sust. Research Inst. 2010).

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governments are often expected to consider the interests of less powerful, or less vocal, constituents.

3. Stakeholders and the Dynamics of Mining Tax Policy Reform

The mining tax reform considered in this article illustrates how effective and timely consultation and negotiation with stakeholders is a precondition of successful policy reform. According to Duggin (2010), stakeholders should be involved in each phase of the policy development process, including: (1) recognizing and defining the problem or issue; (2) identifying possible solutions by gathering and analysing information and consulting with stakeholders; (3) choosing the best solution; (4) implementing the policy; and (5) evaluating the policy. Successful tax reform should be guided by a clear vision and mentoring the policy; and (5) evaluating the policy. Successful tax reforms should be guided by a clear vision and mentoring the policy.

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As early engagement with stakeholders is vital, strategic choices should be made about the timing and nature of the approach to stakeholders. Five different management strategies may be adopted to reflect the way stakeholders’ interests and objectives will change over the course of the reform process. These are:

1. Idea formulation and the organization of reform: this involves providing reports, indicators, donor advice and study tours to change how stakeholders view the need for reform; and
2. Solution design: stakeholders should gradually be brought into the process through a controlled strategy of information disclosure, participation and consultation;
3. Broadening and marketing reform ideas: here, the focus should be on communicating the right message to the right stakeholders through the right medium; and
4. Political acceptance and adoption: this requires credible political backing to gain parliamentary approval for the reform; and
5. Implementation: at this stage, stakeholders may try to delay, undermine, or reverse the benefits and, as such, policymakers should communicate strategically to help build pro-reform alliances and coalitions among groups of stakeholders.

4. Building a Winning Coalition through Strategic Communication

The key path for stakeholder management is communicating with them strategically to help identify those stakeholders who will help or hinder reform and leverage that knowledge to influence their behaviour. By doing so, this provides a framework for engaging stakeholders to address risks and barriers to reform and helps to mitigate risks of reform, accelerate reform adoption and achieve sustainable reform. Strategic communication can be described as a planned, analytical approach to determine whom a given project must engage with to achieve its reform objectives, for what purpose, and when and how this engagement takes place. The three purposes of strategic communication are:

1. Changing perceptions of the benefits and costs of reform to alter incentives;
2. Creating new means for stakeholders to participate in the reform process; and
3. Building the organization and capacities of pro-reform units and interest groups.

As support for reform is linked to incentives, strategic stakeholder communication can be directed at communicating information on incentives that weaken opposition or increase support for the proposed reforms, as illustrated in the following Table.

Accordingly, stakeholders who shifted from opposing reform towards supporting it usually had their support stimulated by better information, a change in the reform design, new opportunities for rent seeking or better organization and advocacy capacities. However, some stakeholders would strategically retreat and divert their resistance into the implementation phase.

The importance of meaningful mandates in democratic governments makes stakeholder engagement important when negotiating tax reform. Successful reforms have usually been accompanied by consistent and coordinated efforts on the part of policymakers to persuade voters and stakeholders of the need for reform and the costs of non-reform. Policymakers who successfully drive through reform: (1) start with small groups to collect information on the need for reform; (2) conduct good analyses and perform selective consultation in the solution design phase; (3) follow up by broader consultations as information, arguments and clear solutions become ready for presentation to broader audiences; (4) prepare political processes to adopt reforms; (5) divide opponents by appealing to subgroups; and (6) bring in incentives and finance them selectively. In contrast, unsuccessful reforms are: (1) where policymakers make public announcements without good preparation; (2) fail to engage the key stakeholders beforehand; (3) try to build consensus around reform from an early stage; (4) fail to put forward persuasive arguments and clear solutions become ready for presentation to broader audiences; (4) prepare political processes to adopt reforms; (5) divide opponents by appealing to subgroups; and (6) bring in incentives and finance them selectively.

56. OECD, supra n. 3.
57. Id.
59. Id.
61. Id.
62. World Bank, supra n. 58.
63. Id.
64. Id.
65. OECD, supra n. 3.
arguments for reform and a clear view of the new system; and (5) engage in limited efforts to broaden marketing and understanding about the reform, unless political support is already very strong.66

There are seven steps policymakers can take to use strategic stakeholder engagement to build a winning coalition and drive through reform:

1. manage stakeholders by selectively and progressively building pro-reform coalitions, i.e. consensus is not the right principle for stakeholder management;
2. structure direct participation of key stakeholders to produce concrete, practical opportunities for dialogue;
3. generate and communicate factual and credible information about the costs of the status quo and the benefits of reform;
4. create new institutions with incentives to perform for clients, rather than re-engineering existing institutions;
5. help supportive stakeholders become more effective in advocating change;
6. move as quickly as possible, balancing the costs and benefits of expanding stakeholder participation in each phase; and
7. change the reform scope, speed, content and compensation as needed to assemble a winning coalition.67

5. Mineral Resource Tax Reform in Australia68

The Australian government’s original proposal for the taxation of mineral rents on 2 May 201069 attracted significant discontent from voters and powerful stakeholders, in particular, affected mining companies. This was due in large part to the government’s perceived failure to initially negotiate the details of the tax with mining companies.70 Although a significant compromise was negotiated with the three largest mining companies by the new Prime Minister,71 the mining states of Queensland and Western Australia,72 the Federal Opposition Party,73 the smaller mining companies74 and economists75 have all maintained their objections to the modified MRRT. Not only has the issue of whether or not to credit royalties paid by the mining companies to the state governments been particularly contentious,76 but smaller mining companies argue that the MRRT is undemocratic, as they were not consulted in its development. For example, Fortescue Metals Group chief executive Andrew Forrest argues:77

It [the MRRT] was a tax designed by BHP … It’s a precedent that should not be supported. Policy should be broad ranging, it should be fair and it should be based on the constitution of being equal among states and equal among companies.

It is because of these continued objections that the Australian government has announced that it will hold consultations and negotiate with all affected stakeholders on an ongoing basis. It is also to this end that the government

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<td>Target</td>
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<td>Objective: weaken opposition</td>
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<td>Scepticism of the effectiveness of reform</td>
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<td>Legitimate concerns about design of the reform</td>
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<td>Ideological principles (hardcore opposition)</td>
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<td>Personal interest in the existing system (hardcore opposition)</td>
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<td>Objective: strengthen support</td>
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<td>Political commitments to mark a new political regime</td>
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<td>Support for broader policy goals linked to the results of reform</td>
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66. OECD, supra n. 3 and World Bank, supra n. 58.
67. World Bank, supra n. 58.
68. See, in general, Sarker & Whalan, supra n. 33, at secs. 2. and 3.
69. Commonwealth Government, supra n. 31 and 32.
70. Queensland Resources Council, supra n. 43; Minerals Council of Australia, Minerals, resources and the prosperity of all Australians, supra n. 43; and Minerals Resource Rent Tax, supra n. 43.
71. S. Maher & D. Shanahan, Tax done. PM Gillard turns to boats, The Australian (3 July 2010).
75. S. Maher & D. Shanahan, Tax done. PM Gillard turns to boats, The Australian (3 July 2010).
77. Id.
ment established the Policy Transition Group (PTG) to undertake wide-ranging consultation with industry. The PTG provided two reports to the government on 21 December 2010 and the government accepted all 94 of the recommendations made by the PTG. These recommendations will form the basis of the design of Australia’s new resource taxation arrangements, as reflected in the draft legislation to be released for consultation in the first half of the 2011/2012 fiscal year.78

The Australian government also established the Resource Tax Implementation Group to support the legislative drafting stage, thereby reflecting its recognition of the importance of continued industry engagement.79 The Resource Tax Implementation Group comprises the Commonwealth Treasury; the Department of Resources, Energy and Tourism; the Australian Taxation Office; as well as a number of representatives from the resources industry and associations and taxation legal and accounting bodies.80 It is evident from this that the government has recognized the importance of stakeholder communication in achieving successful tax reform.

In addition, the Australian government released the draft legislation for consultation on 10 June 2011, with submissions having closed on 14 July 2011. If all goes to plan, the government will have the mining tax legislation before the Parliament by the end of 2011 and the legislation will take effect on 1 July 2012. The MRRT will apply an effective tax rate of 22.5% on companies’ operating profits whenever they rise more than 7% over Australia’s long-term government bond rate, which is currently around 5.2%. This effective rate of 22.5% is calculated with reference to the 30% headline rate, less a 25% “extraction allowance”. Previous losses can be offset against the tax and carried forward at the long-term bond rate plus 7%.81

Further, the Australian Tax Office (ATO) has announced that it will provide stakeholders with plainly worded, practical guidance on how to administer the MRRT. This announcement is part of the ATO’s moves to work more closely with business through a “pioneering” consultation process.82 However, it remains to be seen how effective this guidance will be at reducing the compliance costs of this complex tax for business.

The Australian government’s commitment to negotiating with stakeholders on key aspects of tax reform does not end there. The current government is a minority one with a limited hold over the balance of power. It relies on support from three independent members to maintain government.83 One of the key commitments made by the government, as a precondition of gaining the support of the Independents to form the government, was to establish a Tax Forum to provide “full, fearless and frank discussion around long-term taxation”.84

The Tax Forum is scheduled for 4 and 5 October 2011 and will consider personal tax, transfer payments, state taxes, environmental and social taxes, tax system governance and alcohol taxes. Although there was pressure to have a wide-ranging discussion of all Australia’s taxes, this will not occur.85 In particular, the details of goods and services tax (GST), carbon taxation and resource taxation (the most contentious tax issues in Australia today) will have been decided before the Forum is held.86 GST is not on the agenda, as the Australian government has recently announced a review of the GST distribution process, which will provide a final report by September 2012.87

Given the diverse agenda of the Tax Forum, expectations of it producing genuine outcomes will not be fulfilled unless a tax reform agenda and narrative are firmly established and the community is successfully engaged. Accordingly, the Australian government should begin its round table engagement with key stakeholders on broader aspects of tax reform in the lead up to the October 2011 Tax Forum for discussion at the forum to be meaningful.88 This can be done by: (1) starting with small groups to collect information on the need for reform; (2) undertaking good analyses and performing selective consultation in the solution design phase; (3) following up by broader consultations as information, arguments and clear solutions become ready for presentation to broader audiences; (4) preparing political processes to adopt reforms; (5) dividing opponents by appealing to subgroups; and (6) bringing in selectively financed incentives.89

89. World Bank, supra n. 58.
Australia’s current political climate also makes achieving tax reform particularly challenging. The current Labor-led minority government holds a very thin balance of power and the opposition has continued to oppose any increase of the tax paid by mining companies. The October Tax Forum means that the future of tax reform in Australia remains uncertain. Accordingly, tax reform in this uncertain political climate will likely require negotiation and compromise with key stakeholders. Australia’s difficulty in achieving tax reform is a reminder that exhaustive consultation must be undertaken. The costs and benefits of various reform options must be painstakingly researched, carefully assessed and clearly presented to the public through stakeholder engagement to develop coalitions of support for the proposed reforms.

Another contentious area of tax reform in Australia is the carbon tax, which has generated strong debate and protests from both sides of politics. As proposed at the time of the writing of this article, the tax would require the country’s 500 worst polluters to pay AUD 23 for every tonne of carbon they emit. Critics said that polluters would pass on higher costs to ordinary Australians, resulting in job losses. The government insisted that the tax would only lead to a 0.7% rise in the cost of living because of an AUD 9.2 billion compensation package. Nine out of ten households would receive some kind of assistance in the form of income tax cuts and payments. Interestingly, the Australian Competition and Consumer Commission was also provided with AUD 12.8 million in funding over four years to carry out its new role of investigating false or misleading claims as to the effect of the carbon tax on prices or wrongful price increases. Originally, Newspoll showed that the carbon tax was disapproved of by 59%, with only a 31% approval rate, but this approval rating increased to 36%, with a 53% disapproval rate following an AUD 25 million advertising campaign in support of the tax. Given the effectiveness of strategic communication in the carbon tax debate, it is likely that the Australian government will continue to employ stakeholder communication as a strategic tool in its efforts to achieve tax reform.

6. Conclusions and Discussion

This article examines the role that strategic communication plays in tax policy reform, with particular attention being paid to the issue of mining tax reform in democracies. Specifically, the article considers the Australian experience of mining tax reform by way of the recently proposed introduction of a resource rent tax and the political difficulties surrounding this issue.

This article also discusses the role of effective communication in policy reform, with particular reference to the strategic role that communication can play in mining tax reform in democracies. By providing specific, practical opportunities for dialogue and creating and communicating incentives to support the proposed reform, strategic communication is a valuable tool for stakeholder management. The theoretical underpinning of the article relies on studies undertaken by the IMF and OECD on the features of successful reforms carried out by democratic governments, as well as empirical evidence drawn from the Australian experience of resource tax reform.

The article finds that the Australian government’s initial failure to communicate and negotiate with stakeholders caused the originally proposed resource rent tax to fail and engendered a political crisis that resulted in the removal of a democratically elected Prime Minister. A better approach is to adopt meaningful strategic communication strategies to enable the development of coalitions with key stakeholders to support the reform and drive it through. This can be seen in the government’s subsequent adoption of strategic communication measures for stakeholder management, such as holding a Tax Forum in October 2011. As such, some key lessons can be learned for tax reform going forward. In particular, the policy development process can be made inclusive through holding stakeholder workshops and maintaining ongoing dialogue between the government and the private sector. The government should continually inform players at all levels and ensure that the reform is kept on the radar of key stakeholders. It is important to lay the groundwork to sustain long-term reform through local buy-in and deep institutional change, rather than rapid reform. This can be achieved through partnering with experienced local organizations to leverage existing relationships, as well as leveraging and coordinating the reform with other programmes.

Tax reform is always a difficult task. It is more difficult in democracies, as various stakeholders exercise their power via engagement. Mining tax reform is no exception. This is particularly so for resource rich countries, where mining companies are powerful stakeholders because they generate significant profits, some of which are retained by the government in the form of tax revenue. Like many other nations around the world, resource  

90. Horne, supra n. 83.
93. World Bank, supra n. 58.
95. Id.
97. Rahman, supra n. 60.
rich nations such as Australia encounter significant pressure for fiscal consolidation and are, therefore, searching for ways in which to collect more revenue for present and future generations. As demonstrated by the Australian experience, mining companies always resist any reduction of their revenue due to increased taxes. Accordingly, policy makers face conflicting objectives. In order to achieve a win-win solution, policymakers should adopt strategic communication tools that not only ensure a smooth transition from one tax policy to the other, but also assist in maintaining harmonious relationships between all stakeholders affected by the proposed tax reform proposals.

Finally, strategic communication is most successful when it is part of a bigger, unified government message. If stakeholders understand or can be adequately convinced of the overarching goal of where the government is headed, they may be more inclined to respond positively to the details of any strategic communication campaign.