Tax reform for sustainability and the role of strategic stakeholder communication: A case study of mineral taxation in Australia

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Issue 2
October 2011
Published by Asia Pacific Centre for Sustainable Enterprise
South Bank campus, Griffith University
226 Grey Street, South Brisbane
Queensland, 4101
Australia
g riffith.edu.au/asia-pacific-centre-for-sustainable-enterprise

ISSN 1839-6356

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Tax reform for sustainability and the role of strategic stakeholder communication: A case study of mineral taxation in Australia

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1. Purpose

This study examines the way in which strategic communication with stakeholders can be used to achieve taxation reforms that take account of both current and future generations. By examining the case study of mineral resource taxation in Australia, this study analyses the problems governments may face in implementing tax reforms for sustainability. This study proposes strategic communication with stakeholders as a solution that will help governments achieve a tax system that takes account of both current and future generations.

2. Context

The recent global financial crisis (GFC) has brought into focus the looming sustainability challenges that are required to be dealt with by governments in the short to medium term. As such, many governments are considering ways in which they can implement policies directed at achieving sustainable economic activity that will take account of both current and future generations. Taxation is an important component of fiscal policy and many governments are considering such reforms in order to consolidate their revenue post-GFC.1 The pressure for fiscal consolidation will compel many governments to seek new sources of revenue in coming years2,3 that will not distort economic growth.4 However, truly forward-looking governments are not only focused on short-term revenue consolidation. Instead, they will also consider ways of achieving long-term policy objectives that take account of both current and future generations.

Mining is an important part of the Australian economy, and rapidly increasing global commodity prices means that Australia is likely to continue to be reliant on mining exports – mainly to India and China. Australia has some of the world’s richest natural resource deposits, and export earnings for commodity exports are predicted to reach AUD 169.8 billion in 2010-11, an increase of 28.4%. At present, mining exports account for 37.6% of Australia’s total exports.5

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However, mining is by nature a cyclical industry since natural resources are finite, and many have argued that it may not be in Australia’s long-term interests to develop the mining industry at the expense of other sectors. Australia’s ‘two speed economy’ means that the resource-rich states of Queensland and Western Australia have experienced sustained economic growth because of mining, while less resource-rich states have experienced slower growth. The “natural resource curse” also means that the distribution of government revenue from mining tends to be uneven between generations: government expenditure is greater while natural resource deposits last and reduces when they run out.

Accordingly, there are strong arguments in favour of increasing taxation on the mining sector to allow for the redistribution of the wealth gained from mining to less resource-rich States. Further, the introduction of a resource rent tax to replace the current ad valorem or royalty based system has long been considered a ‘potentially robust source of relatively non-distorting revenue’. It was against this background that the Henry Tax Review proposed the taxation of mineral rents on 2 May 2010. The original proposal involved a Resources Super Profits Tax (RSPT): a 40% tax on all profits made by mining companies above the 6% rate of return.

However, this proposal triggered significant voter discontent precisely because revenues from mining form such a significant part of Australia’s GDP. In response to the Government’s proposal, mining shares on the Australian stock market dropped: share prices of major ASX listed mining companies dropped between 3 to 7 percent out of concerns that the proposed resource rent tax would unduly disadvantage the mining sector. Mining companies also heavily criticised the Australian Government’s perceived unwillingness to negotiate key details of the tax with them. Many mining companies believed that the Australian Government should have first engaged and negotiated with stakeholders to help build a winning coalition to drive the reform through, rather than announcing the resource rent tax as a finalised package. This political discontent was so severe that it led to the removal of a democratically elected Prime Minister in his first term.

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, which are BHP Billiton, Rio Tinto and

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10 IMF (2010) op. cit.
20 Queensland Resources Council (2010) op. cit.

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Xstrata. The new Mineral Resource Rent Tax (MRRT) involves a 30% tax on all profits above the 12% rate of return, which is significantly more generous to mining companies that the RSPT that was originally proposed. However, not everyone was happy with the new tax. In particular, smaller mining companies continued to oppose the modified MRRT on the grounds that they had been excluded from the negotiations. Queensland and Western Australia (the two most resource-rich states) also continued to oppose the MRRT because it would be levied by the Federal Government and as such, will reduce the amount of mining royalties collected by the States.

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. As such, it is essential for any government wishing to drive through significant tax reforms, particularly those that focus on the interests of future, not just current generations, to effectively manage stakeholders in the proposed reform. The World Bank recommended that strategic stakeholder communication was an effective way for governments to successfully achieve significant policy reforms.

3. Achieving tax reform for sustainability

What is strategic stakeholder communication? Strategic communication is a planned, analytical approach for determining whom a given project must engage to achieve its reform objectives, for what purpose, and when and how this engagement takes place. It is actually a process that takes place through a number of different stages to identify stakeholders who will help or hinder reform and then leverage that knowledge to influence their behaviour. As such, strategic communication should be considered as providing a framework for engaging stakeholders to address risks and barriers to reform. If used correctly, it will help mitigate risks of reform, accelerate reform adoption, and achieve sustainable reform.

How can governments use strategic communication to influence the behaviour of stakeholders? Support for reform is linked to incentives. As such, strategic communication should be directed at communicating information relevant to those incentives in order to weaken opposition or increase support for the proposed reforms. Ways in which strategic communication can be used to achieve this objective are illustrated below in Table 1.

The World Bank showed that there were three ways countries have successfully used strategic communication. First, strategic communication can be used to alter incentives by changing stakeholders’ perceptions of the benefits and costs of reform. It can also be used to create new, structured ways for communication. First, strategic communication can be used to alter incentives by changing stakeholders’ perceptions of the benefits and costs of reform. It can also be used to create new, structured ways for communication. First, strategic communication can be used to alter incentives by changing stakeholders’ perceptions of the benefits and costs of reform. It can also be used to create new, structured ways for communication.

28 Ibid
30 Ibid.
31 World Bank (2009) op. cit.
support reform. Accordingly, stakeholders who shifted towards reform usually had their support stimulated by better information, a change in the reform design, new opportunities for rent seeking, or better organisation and advocacy capacities.

Table 1 Strategic communication of incentives

<table>
<thead>
<tr>
<th>Targeted issue or problem</th>
<th>Strategic solution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Communication Objective: Weaken stakeholder opposition</strong></td>
<td></td>
</tr>
<tr>
<td>Skepticism of the effectiveness of reform</td>
<td>Provide concrete information or results in other countries</td>
</tr>
<tr>
<td>Legitimate concerns about design of the reform</td>
<td>Discuss concerns, accommodate as needed without substantial damage to results of reform</td>
</tr>
<tr>
<td>Ideological principles (hardcore opposition)</td>
<td>Reduce participation in the reform process, link reforms to high priority political goals such as unemployment</td>
</tr>
<tr>
<td>Personal interest in the existing system (hardcore opposition)</td>
<td>Expose realities of current system, deploy concrete evidence of the benefits and costs of the new system</td>
</tr>
<tr>
<td><strong>Communication Objective: Strengthen stakeholder support</strong></td>
<td></td>
</tr>
<tr>
<td>Political commitments to mark a new political regime</td>
<td>Link reform to high priority political goals, assemble coalition of allies with political influence</td>
</tr>
<tr>
<td>Technocratic agendas and professional values</td>
<td>Provide information on the benefits and costs of the new system, clear vision design of the new system</td>
</tr>
<tr>
<td>Personal interest in economic gain from reform</td>
<td>Demonstrate the financial gains from the new system</td>
</tr>
<tr>
<td>Support for broader policy goals linked to the results of reform</td>
<td>Link reform to high priority political goals, use international information to document effects</td>
</tr>
<tr>
<td>Donor and exogenous pressures</td>
<td>Link reform to exogenous pressures as “drivers” of reform</td>
</tr>
</tbody>
</table>

Source: World Bank, 2009, p. 44

Why is strategic communication important? Reform is most successful when a government has a meaningful mandate from the people. Conversely, an unpopular reform may be fatal to the government. The importance of meaningful mandates in democratic governments makes strategic communication important when negotiating tax reform. This is why, throughout history, successful and significant reforms have 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. This is usually performed by beginning with small groups to collect information on the need for reform. A government will then conduct good analyses and perform selective consultation in the solution design phase and follow up by broader consultations as information, arguments, and clear solutions become ready for presentation to broader audiences. A government will prepare political processes to adopt reforms. Opposition is often weakened by appealing to subgroups in order to split opponents, and bringing in selectively financed incentives. By contrast, a reform is likely to be unsuccessful if policymakers make public announcements without good preparation or fail to engage the key stakeholders beforehand. Instead, a policymaker should try to build consensus around reform from an early stage. If a policymaker fails to put forward persuasive arguments for reform and a clear view of...
the new system, instead engaging in limited efforts to broaden marketing and understanding about the reform, the reform is likely to fail.\textsuperscript{35,36}

Seven steps can be derived from the above discussion that policymakers can take to use strategic communication to build a winning coalition and drive through reform. These are:

1. Manage stakeholders by selectively and progressively building pro-reform coalitions. 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
7. Change the reform scope, speed, content and compensation as needed to assemble a winning coalition.\textsuperscript{37}

4. Know your stakeholders

Strategic communication is focused on stakeholder management. As such, it is important for any government to know who their stakeholders and why they are important. Stakeholders can be defined as those groups who share a common interest in engaging with and influencing the political process in order to protect their economic interests, avoid negative externalities or maintain their political power.\textsuperscript{38} Since resistance to change is an inevitable part of the tax reform process, understanding the various lobby groups and the interactions between them is crucial to successful negotiation.\textsuperscript{39} In particular, identifying the winners and losers of the reform will help any reform to be successful.\textsuperscript{40} Further, any tax policy formulated through a process of consultation will also be seen as more legitimate, because it meets the preferences of a majority of interest groups who are affected by the decision. This process also adds transparency and accountability to the policy making process. Governments may also need to engage with stakeholders regarding operational issues because they have practical knowledge, experience and expertise in the industry.\textsuperscript{41}

For example, key stakeholders in the Australian Government’s proposed mining tax may 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.

\begin{flushleft}
\textsuperscript{35} Ibid.
\textsuperscript{36} World Bank (2009) \textit{op. cit.}
\textsuperscript{37} Ibid.
\textsuperscript{39} Sarker T and Whalan E (2010) \textit{op. cit.}
\textsuperscript{40} Fidrmuc F and Noury A (2003) \textit{op. cit.}
\end{flushleft}
With such a multitude of stakeholders, how do governments identify which stakeholders are the most important? Mitchell, Agle and Wood\(^\text{42}\) propose three factors that should be considered in order to determine the importance of the stakeholders’ claims:

1. The stakeholders’ power to influence decision making. In the 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.
3. The urgency of their claim, which will occur when the claim is of a time-sensitive nature and when the claim is important to the stakeholder.

The above implies that stakeholders with the greatest interest in government policies should have the greatest say in their outcomes.\(^\text{43}\) 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 because they are profit making corporations, their revenues are very important to them. Australia’s reliance on exports gives power to the mining companies as stakeholders.\(^\text{44}\) However, there is often a conflict between the short-term interests of stakeholders and the long-term objectives policymakers are seeking to achieve.

This explains why the advertising campaign run by the mining companies opposing the Australian Government’s proposed Resources Super Profit Tax (RSPT) was so successful in preventing its introduction and resulted in the negotiation of a compromise that was much more favourable to the mining companies: the Mineral Resource Rent Tax (MRRT).\(^\text{45,46}\) This also suggests that the Australian Government could have easily avoided its political crisis by strategically communicating and negotiating with stakeholders instead of presenting the resource tax reforms to stakeholders as a finalised package.

5. Recommendations for Australia

The Australian Government’s original proposal for the taxation of mineral rents on 2 May 2010\(^\text{47,48}\) attracted significant discontent from voters and powerful stakeholders, such as 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.\(^\text{49,50,51}\) Although a significant compromise was negotiated with the three largest mining companies by the new Prime Minister,\(^\text{52,53}\) the States of Queensland and Western Australia,\(^\text{54}\) the Federal Opposition


\(^{44}\) Ibid.


\(^{47}\) Commonwealth Government, Department of Treasury (2010a) op. cit.

\(^{48}\) Commonwealth Government, Department of Treasury (2010b) op. cit.

\(^{49}\) Queensland Resources Council (2010) op. cit.

\(^{50}\) Minerals Council of Australia (2010a) op. cit.

\(^{51}\) Minerals Council of Australia (2010b) op. cit.

\(^{52}\) Association of Mining and Exploration Companies (2011) op. cit.
Party, the smaller mining companies, and economists have all maintained their objections to the modified Mineral Resource Rent Tax. Not only has the issue of whether or not to credit royalties paid by the mining companies to the State governments been particularly contentious, but smaller mining companies argue the MRRT was undemocratic because they were not consulted in its development.

As such, effective and timely consultation and negotiation with these stakeholders is a pre-condition of successful policy reform, since the objectives of policymakers and key stakeholders can often be in conflict. Since 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 should be adopted because stakeholders’ interests and objectives will change over the course of the reform process. These are:

- **Stage 1: Idea formulation and organisation of reform.** The stakeholder management strategy that should be adopted are providing reports, indicators, donor advice, and study tours to change how stakeholders view the benefits and costs of current practices in order to illustrate the need for reform.

- **Stage 2: Solution design.** Stakeholders should be brought into the process through a controlled strategy of information disclosure, participation, and consultation.

- **Stage 3: Broadening and marketing reform ideas.** Here, the focus should be on communicating the right message to the right stakeholders through the right medium.

- **Stage 4: Political acceptance and adoption.** This requires credible political backing to gain parliamentary approval for the reform.

- **Stage 5: Implementation.** At this stage, stakeholders may try to delay, undermine, or reverse the benefits. In this situation, policymakers should communicate strategically to help build pro-reform alliances and coalitions among groups of stakeholders.

According to Duggin, stakeholders should be involved in each phase of the policy development process, including recognising and defining the problem or issue, identifying possible solutions by gathering and analysing information and consulting with stakeholders, choosing the best solution, implementing the policy, and evaluating the policy. Successful tax reform should be guided by a clear vision and backed up by solid analysis. The proper timing of reform is crucial, and should be linked to the business cycle. Although there are strong arguments for bundling tax reforms into comprehensive packages to address distributional issues,
piecemeal reforms may be more politically acceptable. Transitional arrangement and grandfathering arrangements may offset the impact of the reform for stakeholders that are the most affected.64

There are some indicators that the Australian Government has learned the pitfalls of not taking stakeholders’ views into account. In particular, because of the continued objections to the modified MRRT, the Australian Government has announced that it will hold consultations and negotiate with affected stakeholders on an ongoing basis. It is to this end that the Australian Government established a 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 Australian 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 draft legislation to be released for consultation in the first half of 2011.65

The Government also established the Resource Tax Implementation Group to support the legislative drafting stage, reflecting the Government’s recognition of the importance of continued industry engagement.66 This implementation group will be comprised of the Commonwealth Treasury, the Department of Resources, Energy and Tourism, the Australian Taxation Office, and a number of representatives from the resources industry and associations, and taxation legal and accounting bodies.67 It is evident from this that the Australian Government has recognised the importance of stakeholder communication in achieving successful tax reform. If all goes to plan, the Australian government will have the mining tax legislation in parliament by the end of 201168

The Australian Government’s commitment to negotiating with stakeholders on key aspects of tax reform does not end there. The current Australian Government is a minority government with a very thin balance of power. It relies on support from three Independents to hold government.69 One of the key commitments made by the Australian Government as a pre-condition of gaining the support of the Independents to form government was to hold a Tax Forum in October 2011 to provide ‘full, fearless and frank discussion around long-term taxation’.70

The October 2011 Tax Forum did not achieve its intended objectives. There was general consensus on the need for reform, but not how to achieve it.71 Many criticise the Tax Forum as being held for political reasons rather than with the objective of achieving tangible outcomes.72 Another major limitation is that the opposition party did not participate in the Tax Forum, with the leader of the opposition describing it as a ‘pointless talkfest’ because of the limitations placed on the topics of the tax forum. Instead, the leader of the opposition announced that the opposition party would be holding its own tax forum with the aim of achieving ‘lower, fairer, simpler taxes’.73 However, Oakeshott (the independent MP who made the Tax Forum a condition of his support for the current minority government) is optimistic about the future of tax reform in

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67 Ibid.

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Australia. He believes that the Tax Forum has successfully come up with some tangible results (such as the formation of a tax reform board, investment in tax research and raising the tax-free threshold to $21,000). Despite this, he acknowledges that there is a need for a ‘hell of a lot more work’ to turn Australia’s ‘unsustainable’ tax system into a sustainable one.\(^{74}\)

This is particularly so since the current Australian government is a minority government that has experienced enough difficulties in achieving the passage of the carbon tax legislation on 12 October 2011.\(^{75}\)

Under the carbon tax package, a fixed carbon price of $23 a tonne will be imposed, rising at 2.5% a year in real terms for the next three years. In 2015, the package will convert to an emissions trading scheme with a floating price.\(^{76}\) Newspoll places support for the carbon tax at 36%.\(^{77}\) Adopting another controversial tax reform could be damaging for a political party\(^{78}\) that currently has the most unpopular Australian government in the past 40 years.\(^{79}\)

It is evident from the above that tax reform is difficult for the Australian Government. With the widespread recognition of the need for tax reform demonstrated by the October 2011 Tax Forum, the question for the current Government is how best to achieve tax reform, given the complexity of the issues and the multitude of stakeholders involved in the reform process. Strategic communication provides a way forward for the Government as it provides a framework for engagement with stakeholders in the reform process. By communicating and managing stakeholders in a methodical way, strategic stakeholder communication can permit stakeholders’ views to be taken into account without their diversity paralysing the reform process.

6. Anticipated outcomes

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.\(^{80}\) If all goes to plan, the Australian government will have draft legislation on the table by May, but the June 2011 Tax Summit means that the future of tax reform in Australia remains uncertain.\(^{81}\) Therefore, achieving tax reform in this uncertain political climate will likely require negotiation and compromise.\(^{82}\) Australia’s failed attempt to introduce a mineral resource rent tax is a reminder that exhaustive consultation with key stakeholders must be undertaken, and the costs and benefits of various reform options must be painstakingly prepared, carefully assessed, and clearly presented to the public through strategic communication to develop coalitions of support for the proposed reforms.\(^{83}\)

\(^{74}\) White C (2011) ‘Oakeshott believes tax forum was a big accomplishment’ OYE Times, October 5. Available at http://www.oyetimes.com/news/109-australia/14237-oakeshott-believes-tax-forum-was-a-big-accomplishment


\(^{80}\) Home N (2010) op. cit.


\(^{83}\) World Bank (2009) op. cit.
The Henry Tax Review and subsequent Tax Forum allowed the formulation of a diverse range of suggestions for how best tax reform can be progressed. This indicates that Australia is currently at stage 1 of the strategic communication process: idea formulation and organisation of reform. Stage 2 requires solution design, where stakeholders should be brought into the process through controlled participation, before stage 3 (broadening and marketing reform ideas) is reached. The tax reform board agreed to by the October 2011 Tax Forum may allow this to be achieved by providing a one-point mechanism for communicating with stakeholders in order to achieve solution design and market reform ideas to affected parties. Tax reform is a difficult task for any government, and these problems are particularly evident in the Australian Government’s experience with the tax reform process in the last couple of years. For any meaningful tax reform to be achieved, it will be important for the Australian Government to strategically communicate with stakeholders in the process of formulating and negotiating effective, meaningful and wide-ranging tax reform that will take account of both current and future generations. Strategic communication is an essential part of this process because it allows coalitions of support to be created that will help, not hinder, the tax reform process.

7. Conclusion

Stakeholders play an important role in policy formulation for democratic governments. As such, the failure to maintain harmonious stakeholder relationships can threaten the very existence of the government. This was clearly evident in Australia, where a democratically elected Prime Minister was removed when important stakeholders were dissatisfied with the originally proposed RSPT and the apparent refusal of the government to negotiate with its stakeholders. This implies democratic governments should engage in consultative policy formulation to give legitimacy to their decisions. The problems that occurred with the Australian Government’s attempt to reform the mineral tax policy of the country were due to a failure to appropriately manage and communicate with its stakeholders. The RSPT as originally proposed was perceived as having been released as a finalised proposal without first consulting with the mining companies. This engendered major opposition from the mining companies based on this aspect alone. When the new Australian Prime Minister developed the modified Mineral Resource Rent Tax in consultation with key mining companies, and announced the establishment of a Resource Tax Implementation Group, the objections to the proposal largely subsided. However, the States of Queensland and Western Australia (the two most resource rich states in Australia), the Federal Opposition Party, and the smaller mining companies have maintained their objections to the modified MRRT.

This study finds that the Australian Government’s initial failure to communicate and negotiate with stakeholders caused the originally proposed resource rent tax to not succeed, engendering a political crisis which resulted in the removal of a democratically elected Prime Minister. A better approach would have been 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 Australian Government’s subsequent adoption of strategic communication measures for stakeholder management, such as holding a

84 Ibid.
85 Pope J (2007) op. cit.
89 Queensland Resources Council (2010) op. cit.
90 Commonwealth Government (2010c) op. cit.
91 McHugh B (2011) op. cit.
92 Grattan M (2011) op. cit.
93 Grant-Taylor T (2011) op. cit.
Tax Policy 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 organisations to leverage existing relationships, as well as leveraging and co-ordinating the reform with other programs.94

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 vast profits, some of which are retained by the government in the form of tax revenue. Like many other nations around the world, resource rich nations such as Australia are facing significant pressure for fiscal consolidation, and are accordingly looking for ways to collect more revenue for present and future generations. However, as demonstrated by the Australian experience, mining companies will always resist any reduction of their revenue due to increased taxes. Accordingly, there is often a conflict between the long-term objectives of policymakers and the short-term objectives of key stakeholders. In order to achieve a win-win solution, policymakers need to adopt strategic communication tools that will not only ensure a smooth transition from one tax policy to the other, but will also assist in maintaining harmonious relationships between all stakeholders affected by the proposed tax reform proposals. The process of strategic communication will enable Australia’s transition to a sustainable tax system that takes account of the needs of both current and future generations.

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94 Rahman S (2010) op. cit.