*2011 International Conference on Financial Management and Economics*
*IPEDR vol.11 (2011) © (2011) IACSIT Press, Singapore*

# Recent Developments in Mineral Tax Policy Reform: the lessons from the Global Financial Crisis

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**Abstract**. This paper analyses the role of stakeholders in tax policy reform with reference to the Australian experience in attempting to introduce a resource rent tax by replacing the existing royalty based system. By discussing why some groups of stakeholders are more powerful than others and why democratic governments are required to develop policy in consultation with their stakeholders, this paper proposes some ways by which governments can effectively manage stakeholders, particularly by building a winning coalition through strategic communication.

**Keywords**: Mineral tax policy reform, stakeholders, global financial crisis, Australia

## 1. Introduction

The Global Financial Crisis (GFC) caused many governments to look for new methods of raising revenue. For a resource rich country like Australia, the introduction of a resource rent tax to replace the current ad valorem or royalty based system seemed a perfect policy solution that could increase the efficiency of the resource taxation system (IMF, 2010). A resource rent tax would also allow for the redistribution of the wealth gained from mining to less resource-rich areas (Department of Treasury, 2010). However, political upheaval occurred due to the Australian Government announcing the tax as a complete package, rather than first engaging and negotiating with stakeholders and building a winning coalition to drive the reform through. This triggered a media campaign against the tax launched by mining companies, which caused political chaos including the removal of a democratically elected Prime Minister (Sarker & Whalan, 2010). After the removal of the incumbent Prime Minister, a significant compromise was negotiated between the new Prime Minister and the largest companies in the mining industry. The difficulties experienced by the Australian Government in implementing significant taxation policy reform highlight the role that stakeholders play in policy formulation in democracies (Pope, 2007).

## 2. The role of stakeholders in tax policy reform

Who are stakeholders and why are they important? Stakeholders may be thought of as those interest groups, who engage in, and influence, the political process in order to protect their economic interests, to avoid negative externalities or to maintain political power (Fidrmuc & Noury, 2003). A policy formulated through a process of consultation will be seen as more legitimate, because it meets the preference of a majority of interest groups who are affected by the decision, and adds transparency and accountability to the policy making process. Governments may also need to engage with stakeholders because they have practical knowledge, experience and expertise (Weiss, 1995).

For example, key stakeholders in the Australian Government's mining tax may include the Commonwealth Department of Treasury, the State Governments of Queensland and Western Australia (who 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

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stakeholders, how do governments identify which stakeholders are the most important? Mitchell, Agle and Wood (1997) proposed that three factors be considered: (1) the stakeholders' power to influence decision making; (2) the legitimacy of their relationship to the government; and (3) the urgency of their claim. Accordingly, stakeholders with the greatest interest in government policies should have the greatest say in their outcomes (Lozano, 2010). 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.

## 3. Stakeholders and the dynamics of reform

According to Duggin (2010), stakeholder engagement should be integrated into the policy development process, which has five key phases: 1. Recognising 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. In all five phases, early engagement with stakeholders is vital (Duggin, 2010). Strategic choices should be made about the timing and nature of the approach to stakeholders. Since stakeholders change over the reform path, five different management strategies should be adopted to account for this (World Bank, 2009).

These strategies are as follows. Since the first stage of reform is idea formulation and organisation of reform, reports, indicators, donor advice, and study tours change how stakeholders view the benefits and costs of current practices and illustrate the need for reform. At the second stage of reform, which is solution design, stakeholders should be brought into the process through a controlled strategy of information disclosure, participation, and consultation. At the third stage of broadening and marketing of reform ideas, the focus should be on communicating the right message to the right stakeholders through the right medium. When political acceptance and adoption is required at the fourth stage to gain parliamentary approval for the reform, credible political backing is essential. The final stage of implementation is where stakeholders may try to control the reform and 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 (World Bank, 2009).

## 4. Building a winning coalition through strategic communication

The key avenue for stakeholder management is strategic communication, because it helps identify those stakeholders who will help or hinder reform and then leverages that knowledge to influence their behaviour. By doing so, it 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 (Rahman, 2010). 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. The three purposes of strategic communication are: to change perceptions of the benefits and costs of reform, hence altering incentives; creating new, highly structures means for stakeholders to participate in the reform process; and building organisation and capacities of pro-reform units and interest groups (World Bank, 2009). Because support of reform is linked to incentives (World Bank, 2009), strategic communication can be directed at communicating information directed at these motivations in order to increase stakeholder support for, and decrease opposition to, the proposed reform, as illustrated in Table 1.

Table 1: Strategic communication of incentives

| **Objectives** | **Stakeholder management strategy** |
|---|---|
| ***Weaken Incentives to Oppose Reform*** | |
| Skepticism of the effectiveness of reform | Provide concrete information or results in other countries |
| Legitimate concerns about design of the reform | Discuss concerns, accommodate as needed without substantial damage to results of reform |
| Ideological principles (hardcore opposition) | Reduce participation in the reform process, link reforms to high priority political goals such as |

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|---|---|
| | unemployment |
| Personal interest in the existing system (hardcore opposition) | Expose realities of current system, deploy concrete evidence of the benefits and costs of the new system |
| ***Strengthen Incentives to Support Reform*** | |
| Political commitments to mark a new political regime | Link reform to high priority political goals, assemble coalition of allies with political influence |
| Technocratic agendas and professional values | Provide information on the benefits and costs of the new system, clear vision design of the new system |
| Personal interest in economic gain from reform | Demonstrate the financial gains from the new system |
| Support for broader policy goals linked to the results of reform | Link reform to high priority political goals, use international information to document effects |
| Donor and exogenous pressures | Link reform to exogenous pressures as "drivers" of reform |

Source: World Bank, 2009, p 44

The importance of meaningful mandates in democratic governments makes strategic communication all the more important. Successful reforms have usually been accompanied by consistent and coordinated efforts to persuade voters and stakeholders of the need for reform and the costs of non-reform (OECD, 2010).

## 5. Mineral resource tax reform in Australia

Tax reform in Australia could benefit from strategic communication, particularly given the current political climate. The current Australian Government holds minority government with a very thin balance of power, and the opposition has continued to oppose any increase of the tax paid by mining companies (Horne, 2011). 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 mining tax reform in Australia remains uncertain (Ryan, 2011). Australia's current political environment presents policymakers with many new challenges. Achieving tax reform will likely require negotiation and compromise (Deloittes, 2010). Expectations of the June 2011 Tax Summit 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 take the June 2011 Tax Summit as an opportunity to begin its round table engagement with key stakeholders. This can be done by starting with small groups to collect information on the need for reform; conducting good analyses and performing selective consultation in the solution design phase; following up by broader consultations as information, arguments, and clear solutions become ready for presentation to broader audiences; preparing political processes to adopt reforms; splitting opponents by appealing to subgroups; and bringing in selectively financed incentives. 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 in order to develop coalitions of support for the proposed reforms (World Bank, 2009).

## 6. Conclusion

The Australian Government's failure to communicate and negotiate with stakeholders caused its proposed mineral resource rent tax to fail. A better approach would have been to use strategic communication to build coalitions of key stakeholders to support the reform and drive it through. 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 (Rahman, 2010). Tax reform is always a difficult task for democratic governments. However, the Australian Government can use the lead up to the June 2011 Tax Summit to communicate strategically with key stakeholders, particularly mining companies, in order to develop the coalitions of support that are necessary to introduce a reform as significant as the mineral resource rent tax.

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