THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2026

MODULE 3.04 – ENERGY RESOURCES OPTION

ADVANCED INTERNATIONAL TAXATION (THEMATIC)

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- You must use the appropriate currency, unless otherwise stated. Any monetary calculations should be made to the nearest whole unit of currency. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A

You are required to answer BOTH questions from this Part.

1. Studies indicate that the southeast region of Nobala, a new oil-producing state, has significant oil resources. The Ministry of Energy of Nobala has approached an oil industry consultant, who suggested that the Ministry enter into a 30-year production-sharing agreement (PSA) with an oil and gas company, Lucky Oil & Gas, to develop and produce these oil resources.

The following production and cost forecasts have been provided for a period of five years:

Year	Operational costs (£)	Production (barrels)	Oil price per barrel (£)	Bonus (£)
0	6,000,000	0	65	2,000,000
1	5,000,000	400,000	80	
2	3,000,000	500,000	85	
3	4,000,000	600,000	80	
4	5,000,000	700,000	60	1,000,000
5	8,000,000	1,000,000	70	

The consultant also recommended the following clauses for the PSA:

- Operational costs in Year 0 can be carried forward and deducted from profits earned in subsequent years, for tax purposes.
- Bonus payments are not tax deductible.
- After cost oil recovery, profit oil is split 50:50 between Nobala and Lucky Oil & Gas.
- Taxation is applied on taxable income in the following order: 40% oil tax, then 20% corporate tax. Oil tax is a deductible charge for corporate tax.
- Lucky Oil & Gas is to provide annual and periodic training to local employees on oil exploration and marketing. The training will be organised and hosted by the Ministry of Energy but delivered by experts from Lucky Oil & Gas. The £500,000 cost of the training will be covered by the Ministry of Social Affairs of Nobala.

You are required to:

1) Calculate the net profit for Lucky Oil & Gas over the five-year period. (14)

2) Calculate the total revenue for Nobala from its oil resources over the same period. (5)

3) Discuss three limitations of PSAs, that may be considered by Nobala's Ministry of Energy. (6)

Total (25)

2. DeepSea Global, a multinational enterprise, entered into an exploration contract with the National Oil Company of Azuria (NOCA) to deploy and operate a mobile offshore drilling unit (MODU) in Azuria's territorial waters.

The applicable double tax agreement (DTA) between DeepSea Global's country of residence and Azuria is strictly based on the OECD Model Tax Convention (OECD MTC) and reflects the 2025 update; it stipulates a 12-month threshold for a permanent establishment (PE) arising from a building site, construction or installation project. Conversely, Azuria's domestic Petroleum Tax Act deems any offshore resource activity exceeding 30 days to constitute a taxable presence.

To manage its tax exposure and avoid triggering a PE, DeepSea Global structured the project using two wholly-owned subsidiaries to carry out the operations:

- Sub-A performed preliminary seismic surveys for five months; and
- Sub-B subsequently performed the actual drilling operations for eight months.

DeepSea argues that neither entity triggers a PE under the treaty's 12-month threshold and that the DTA should override Azuria's more stringent domestic provisions.

The Azurian Revenue Authority (ARA) has issued a formal tax assessment, claiming that a PE exists. The ARA argues that, under the BEPS Action 7 anti-fragmentation rules, as adopted between the two nations via the Multilateral Instrument (MLI), the activities of closely related enterprises (i.e. Sub-A and Sub-B) must be aggregated, totalling 13 months.

Furthermore, the ARA is attempting to tax independent management fees that DeepSea Global received for an entirely unrelated consultancy project located in Azuria's capital. The ARA cites the 'force of attraction' principle found in the UN Model Double Taxation Convention to justify this inclusion, despite acknowledging that the DTA is OECD-based. DeepSea Global maintains that these management fees are standard 'business profits' protected entirely by Article 7 of the OECD MTC.

You are required to:

1) **Explain the conflict between Azuria's domestic '30-day rule' and the DTA's '12-month threshold'. Discuss which provision takes precedence, and evaluate the general impact of this precedent on international oil and gas investment certainty.** (7)

2) **Critically evaluate the ARA's use of BEPS Action 7 (and the MLI) anti-fragmentation rules to aggregate the time spent by Sub-A and Sub-B. Discuss how this regulatory shift affects the historical industry practice of 'contract splitting'.** (8)

3) **Compare the OECD and UN Model Conventions regarding the 'force of attraction' principle. Assess whether Azuria has a legal justification for taxing the unrelated management fees under standard OECD-based treaty protections.** (5)

4) **Discuss the fiscal and administrative consequences for DeepSea Global if the ARA successfully establishes a PE, specifically addressing the operational shift from withholding tax to corporate income tax.** (5)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. International oil and gas contracts with governments may provide for 'state equity', which refers to the government's ownership share in an oil and gas development project. This right to a project interest is usually combined with other fiscal instruments, such as royalties, taxes, or production sharing.

   You are required to:

   1) **Define 'state equity', and discuss the key characteristics of state equity in the upstream oil and gas sector.** (10)

   2) **Discuss how state equity may be acquired and the motivations for acquiring state equity.** (10)

   Total (20)

4. The exploration and production of offshore oil and gas resources require the use of high-value, specialised equipment, such as mobile offshore drilling units (MODUs) and floating production storage and offloading (FPSO) units. Given the extreme capital intensity and geological risks of these projects, multinational energy companies often prefer leasing over direct asset ownership.

   Leasing provides a flexible source of financing that avoids the need for massive upfront capital outlays. In addition, companies frequently utilise sale-leaseback arrangements to unlock capital from existing mature assets.

   You are required to critically discuss the principal direct and indirect tax implications arising from cross-border leasing and sale-leaseback arrangements in the international oil and gas industry.

   Your answer should evaluate the strategies that multinational energy groups might adopt to optimise their fiscal position, whilst addressing compliance risks related to modern international tax standards. (20)

PART C

You are required to answer TWO questions from this Part.

5. When taxing revenue from oil and gas production, some countries incorporate ring-fencing provisions either in their petroleum laws or directly in exploration and production (E&P) contracts. These provisions can vary in scope and objectives, and influence both the taxation of oil and gas companies' profits and government tax revenues.

   You are required to:

   1) **Explain the concept of ring-fencing in oil and gas contracts, and describe the different scopes of ring-fencing.** (5)

   2) **Discuss the impact ring-fencing may have on the taxation of oil and gas companies and on government tax revenues.** (10)

   Total (15)

6. Carbon taxes and emissions trading schemes are market-based policy tools that place a price on carbon emissions from fossil fuels, encouraging businesses and consumers to reduce emissions, improve energy efficiency, and transition toward cleaner energy sources.

   You are required to discuss the effectiveness of carbon taxes and emissions trading schemes in reducing carbon emissions and mitigating climate change risks. (15)

7. 'Unitisation' occurs when a single oil or gas reservoir straddles the boundary between two different license blocks, requiring the respective ownership groups to join operations to ensure efficient extraction. Over the life of the field, a 'redetermination' may occur where new seismic data changes the estimated percentage of the reservoir sitting under each block.

   You are required to discuss the tax consequences of redetermination in unitised fields, specifically addressing the treatment of 'balancing payments' between the parties involved. (15)