

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

December 2025

MODULE 3.04 – ENERGY RESOURCES OPTION

ADVANCED INTERNATIONAL TAXATION (THEMATIC)

TIME ALLOWED – 3½ 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. After initial seismic studies conducted by Lucky Company in Country M, the results indicate the presence of commercially viable oil resources in Country M's offshore territories. A government economic and tax adviser has recommended that the government enter into a 50-year concession contract with Lucky Company.

As an international tax expert specialising in energy resource taxation, Country M's government has sought your insight and has provided you with the following production and cost data:

<u>Year</u>	<u>Production (million barrels)</u>	<u>Oil price per barrel (\$)</u>	<u>Capital expenditure (\$)</u>	<u>Operating expenditure (\$)</u>
1	0	50	2,000,000	0
2	10	60	1,000,000	500,000
3	20	65	0	1,000,000
4	20	70	500,000	2,000,000

You have also been provided with the following notes:

- Capital expenditures relate to both tangible and intangible assets. These assets will be depreciated/amortised over time, at 10% per year on a straight-line basis.
- The residual value of capital expenditures is estimated to be \$0. Any remaining asset value at the end of year 50 will be expensed as an impairment. No tax allowance is available for impairment losses.
- A loss arising in any given year may be carried forward and applied against taxable profits in subsequent years.
- Decommissioning costs are expected to total \$1 million, payable in year 51 (after the concession ends). A provision will be accrued in equal annual instalments over 50 years, starting in year 1. The annual decommissioning provision is not tax-deductible.
- A bonus of \$5 million is payable to Country M when production reaches 20 million barrels per year.
- A further bonus of \$7 million is payable when production reaches 25 million barrels per year.
- The government of Country M will impose a cash royalty equal to 12% of annual production value (i.e. 12% of gross production value).
- Corporation tax applies to taxable oil and gas profits at a rate of 35%.

You are required to:

- 1) Calculate, for the four-year period:
 - a) the Country M government's share of revenues; and
 - b) the net cash flow of Lucky Company. (20)
- 2) Critically discuss the advantages and disadvantages of the concession system, in terms of tax revenues for Country M. Your discussion should also identify alternative tax mechanisms that Country M could implement to increase its fiscal revenues from oil resources, and assess the suitability of the concession system for a government that is new to the oil industry. (5)

Total (25)

2. GlobalDrill Ltd (GlobalDrill), a Country X-based oil services company, entered into a long-term offshore drilling contract with PetroLuma, the national oil company of Country Y. The contract provides for arbitration under the International Chamber of Commerce (ICC) Rules of Arbitration, with the seat in Singapore and Country Y law as the governing law.

Due to heightened environmental and social pressures, Country Y's parliament recently passed a new fiscal law imposing a retroactive "climate transition tax" on all petroleum-related revenues. GlobalDrill argues that the new tax renders the economics of its drilling operations unsustainable and is inconsistent with specific tax stabilisation provisions in the contract. PetroLuma refuses to adjust or remove the tax, insisting that matters of taxation fall under domestic sovereignty and cannot be reviewed by foreign arbitrators.

GlobalDrill has commenced arbitration under the ICC Rules, seeking repayment of the excess taxes withheld by PetroLuma. During the arbitration, Country Y has challenged the tribunal's jurisdiction, claiming that tax issues are not arbitrable. GlobalDrill seeks an interim measure to compel PetroLuma to place disputed taxes into escrow, pending the outcome. GlobalDrill also warns it may invoke the applicable bilateral investment treaty (BIT) and file an International Centre for Settlement of Investment Disputes (ICSID) claim in parallel if its ICC case fails.

You are required to:

- 1) Explain the significance of the arbitration clause in this context, and why GlobalDrill might prefer arbitration over recourse to the courts of Country Y. (7)
- 2) Analyse the jurisdictional objection raised by Country Y that 'tax matters are not arbitrable', and evaluate how an ICC tribunal seated in Singapore would approach this issue. (8)
- 3) Discuss the legal and practical implications of GlobalDrill's request for interim measures, including enforceability across borders. (5)
- 4) Critically assess the differences between pursuing the arbitration claim under the ICC contract clause and bringing a potential BIT/ICSID claim, highlighting any potential risks of initiating parallel proceedings. (5)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. The acquisition of a target company or oil and gas assets is generally executed through Sale and Purchase Agreements (SPAs). The taxation terms within an SPA are crucial, as they may address the allocation of direct and indirect taxes on the sale, liability for prior taxes, indemnities against tax disputes, and the treatment of any tax losses.

You are required to:

- 1) Critically discuss seller warranties, in the context of an SPA. Consider the role of seller warranties in SPAs, and their implications for taxation. (10)
- 2) Critically discuss indemnity clauses, in the context of buyer protection for seller's tax. Consider how indemnity clauses may protect buyers from tax liabilities arising from the seller's actions or prior obligations. (10)

Total (20)

4. A tax professional advising on the structuring of an international oil and gas development project must consider the potential impact of withholding taxes on the cross-border flows of dividends, interest, insurance premiums and service fees. Once a financing and legal structure is fixed, it is often difficult and costly to restructure when production begins.

You are required to discuss the principal withholding tax matters that should be considered prior to setting up a structure for an oil and gas investment, and alternative strategies that may be used to mitigate withholding tax exposures. You should consider the difference between payments to affiliates and third parties. (20)

PART C

You are required to answer TWO questions from this Part.

5. "While carbon taxes aim to internalise environmental costs and incentivise emission reductions, emission trading schemes aim to limit total emissions, encourage innovations in carbon reductions, and create a market price for carbon."

You are required to critically assess:

- 1) **What are the key differences between these two tools?** (5)
- 2) **How effective are the mechanisms of carbon taxes and emission trading schemes in reducing emissions?** (10)

Total (15)

6. "The governance of mineral resources is critical to the design and structure of a government petroleum fiscal regime."

You are required to:

- 1) **Explain what 'proprietary' means in the context of a government petroleum fiscal regime, and discuss the key differences between proprietary and non-proprietary regimes.** (10)
- 2) **Assess how suitable for a country each regime may be, based on the country's level of experience in the oil and gas sector.** (5)

Total (15)

7. In international oil and gas projects, it is common for companies to sign exploration or production licences and then, at a later stage, transfer those licences either partially (as farm-outs) or fully to another company. Such transfers can arise out of portfolio rebalancing, risk-sharing, or the entry of new investors at the development stage. These transactions may take different forms, depending on commercial objectives, but each structure gives rise to distinct tax impacts that must be assessed carefully before finalising the deal.

You are required to discuss the main tax impacts that need to be considered in the transfer of an oil and gas licence between two parties, and the potential structuring or optimisation techniques that may be adopted to mitigate such tax impacts. You should consider the differences where the transfer is domestic or one or both parties is foreign. (15)

8. Many countries adopt ring-fencing rules under their oil and gas tax regimes, whereby the income and expenses of petroleum operations are restricted and cannot be offset against a company's other income or expenditure.

You are required to discuss the main tax considerations which a multinational oil and gas company should address in jurisdictions where ring-fencing applies, and the possible strategies available for mitigating the impact of ring-fencing provisions. (15)