



**Transfer Pricing Intermediate Level  
Regional Workshop  
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**TRANSFER PRICING IN MINING**



<http://www.un.org/esa/ffd/>

# TRANSFER PRICING IN MINING

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**GEORGE OBELL (KRA)**

# 3 AREAS TO BE COVERED

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1. Areas of TP in Mining
2. Transfer pricing issues
3. Pricing
4. Provision of services
5. Service hubs
6. Transfer pricing challenges with hubs
7. Marketing Hubs
8. Typical mineral sale transaction

## 4 AREAS OF TP IN MINING

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- Sale of minerals
- Purchase of equipment to be used in mines
- Purchase of services

## 5 TRANSFER PRICING ISSUES

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- (i) Fragmentation of the supply chain and ability to locate functions in order to allocate profits to:
  - i. Marketing / procurement companies or branches; and
  - ii. Offshore hedging companies.
- (ii) Fragmentation of transactions-multiple companies, generally in low-tax jurisdictions (splitting out of functions and risks) to divide profits);
- (iii) Thin capitalization;

## 6 TRANSFER PRICING ISSUES CONT'D

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- (iv) Intra-group charges (e.g., technical fees and management fees); and
- (v) Taxpayers using offshore marketing companies to divide profits,

# 7 PRICING IS A CRITICAL TP ISSUE

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- Need to check that transfer prices to related entities is at arm's-length is critical because:
  - Mineral product sales generally involve very large cash flows and even small differences in realised prices can result in significant revenue leakages
  - Most mineral royalties are based on revenue, hence dependent on realised prices
  - The profitability and consequently the amount of corporate income tax levied from mining projects are primarily sensitive to commodity prices

## 8 WHY IS PRICING OF MINERALS A CHALLENGE?

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- The large variety of mineral products and their diverse characteristics and quality specifications (Bulk ores, concentrates, metals etc)
- The diversity of mineral markets and sales contract arrangements
- Scarcity and relevance of mineral prices information



## 9 PROVISION OF SERVICES

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- Done through service provision hubs
- A hub is an entity created within an MNE for provision of services to other entities within the MNE
- Usually located in a low tax jurisdiction or one providing effective tax benefits (e.g. pass through / exemptions / secrecy)

# 10 COMMON SERVICE 'HUBS' IN MINING SECTOR

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- Marketing
- Corporate services
- Engineering, science and technology
- Procurement and logistics
- Insurance
- Finance
- Legal and accounting

## II HOW HUBS MAY BE STRUCTURED

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- Services provided by parent or HO
- Centralized or integrated group focusing on a particular function or multiple functions
- Global or regional office
- Services provided to all, some, or one entity of the MNE group

## 12 TRANSFER PRICING CHALLENGES WITH HUBS

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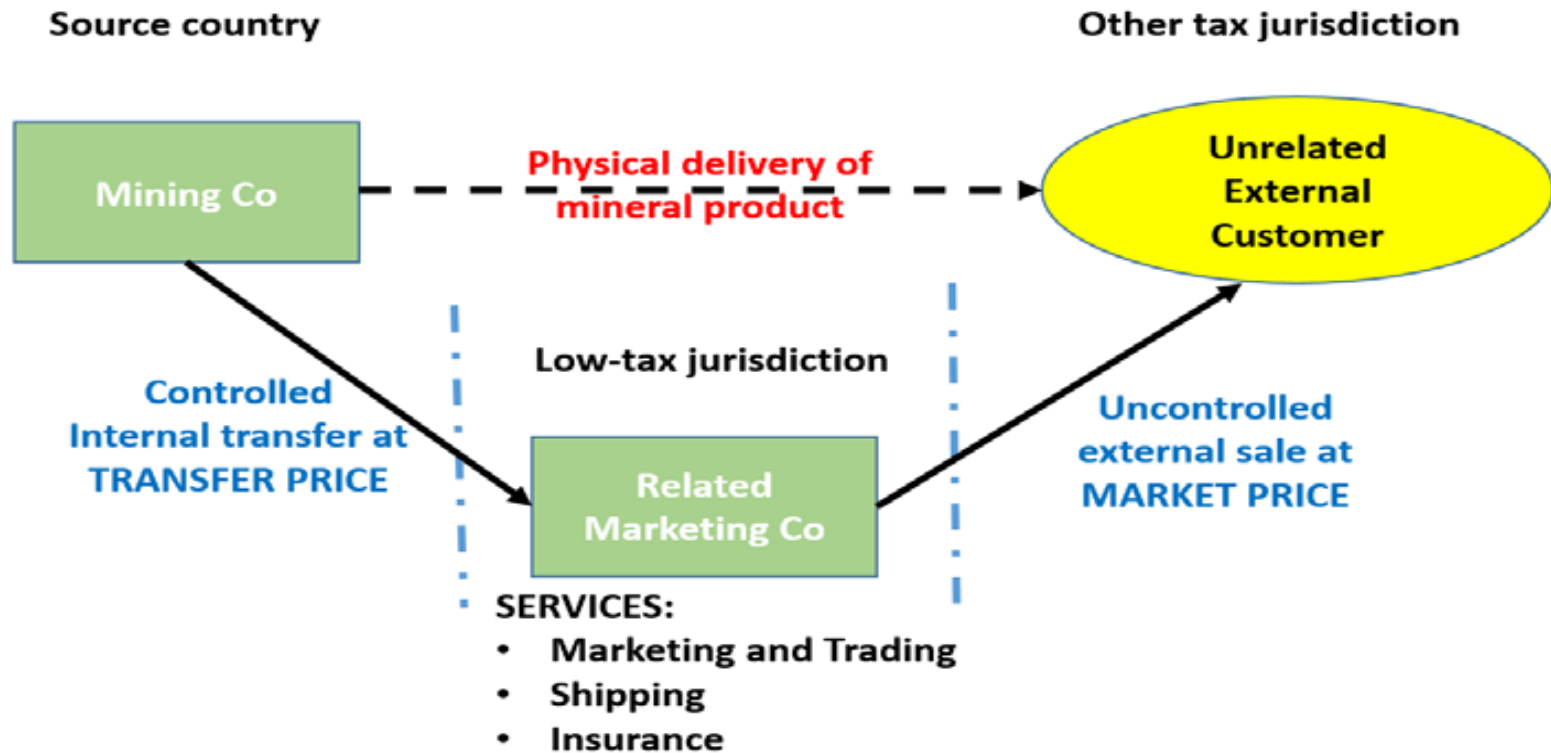
- Synergies may be gained by a MNE that would not be available to unrelated and independent parties
- BEPS 2015 Final Reports for Actions 8-10 - synergistic benefits can only be allocated to those contributing to the benefits
- Lack of arm's length comparable transactions – some transactions only occur between related parties

# 13 MARKETING HUBS

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- Marketing in the mining sector may include: Market intelligence, identification of marketing opportunities and niches
- Contract negotiation, administration and management
- Price negotiation
- Customer relations
- Logistics, e.g. warehousing, packaging, shipping and delivery

# 14 TYPICAL MINERAL SALE TRANSACTION



# 15 DISCUSSION

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Questions and Comments?

