

Ecuador - Transfer Pricing Intermediate Metal Products

Taxable revenue for unrefined metal products =

$$(PM \times P) - ISE - TCRC - DSE$$

PM = Weight of payable minerals (2)

P = International market price (4)

ISE = International shipping expenses

TCRC = Applicable treatment and refining charges (3)

DSE = Domestic shipping expenses

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Weight of payable minerals (PM)

- Mineral content
- Metallurgical deductions as provided in *sale contract*

Treatment and refining charges (TCRC)

- Include impurity penalties
- TCRC for copper not higher than:
 - Long Term: Japanese Terms Contract (Benchmark), by Brook-Hunt
 - Short Term: Far East Spot Market (CIF Asia), by Brook-Hunt

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International market price (P)

- Price of payable mineral content
- Average price of *quotational period*
 - Copper:
London Metal Exchange Official Cash Settlement Price
 - Gold:
London Bullion Market Association average AM/PM fixing
 - Silver:
London Bullion Market Association fixing



LONDON METAL EXCHANGE



LBMA

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Quotational period

- Quotational period agreed in *sale contract*
- Between M-1 and M+4 (M = calendar month of shipment)
- Not valid if agreed or amended after it has started
- Provisional invoices allowed, until prices are known

Validity of quotational period agreed in sale contracts:

- Only if registered at government agency, 15 days prior shipment

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Referential Quotational period

- M+1, if:
 - No quotational period agreed in sale contract
 - No quotational period between M-1 and M+4
 - Agreed period has started before registration

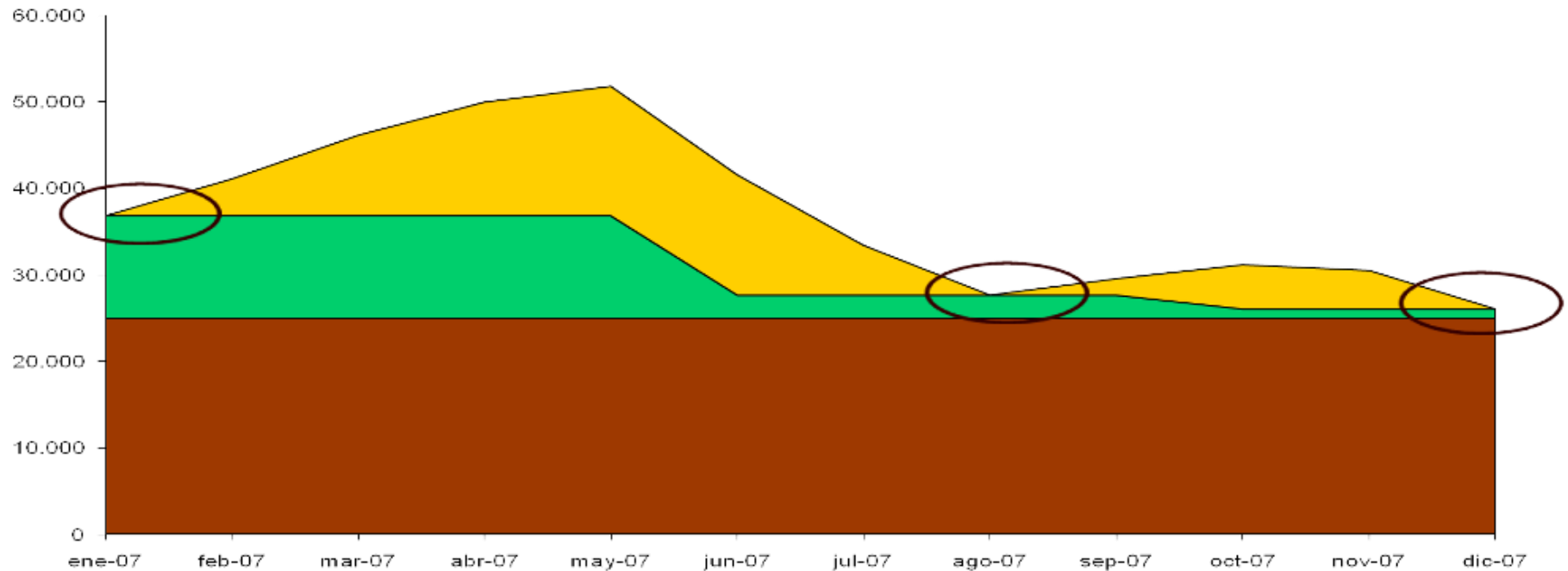
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Nickel

Month	Cantidad (TM)		Market price (USD/MT)	Contract price (USD/MT)	Costs (USD/MT)	Revenue (USD)		Profit shipping date prices	Profit contract prices
	Shipped	Contracted				Shipping date prices	Contract prices		
Jan	1		36.822		25.000	36.822		11.822	
Feb	1		41.078		25.000	41.078	36.822	16.078	11.822
Mar	1	5	46.125	36.822	25.000	46.125	x	21.125	x
Apr	1		49.957		25.000	49.957	5	24.957	5
May	1		51.783		25.000	51.783		26.783	
Jun	1		41.552		25.000	41.552	27.650	16.552	
Jul	1		33.400		25.000	33.400		8.400	2.650
Ago	1	4	27.650	27.650	25.000	27.650	x	2.650	x
Sep	1		29.548		25.000	29.548	4	4.548	4
Oct	1		31.156		25.000	31.156	26.054	6.156	1.054
Nov	1	3	30.506	26.054	25.000	30.506	x	5.506	x
Dic	1		26.054		25.000	26.054	3	1.054	3
TOTAL								145.630	72.867

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Quotational period risk



Orange area: Costs
Green area: Contract profits
Yellow area: Profits with shipping date prices

○ Contract prices

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FINAL REMARKS

- Risk of “cherry picking” quotational period.
- For income tax purposes (not applicable to royalties):
 - Current rules may be changed with an APA.
- Rules adapted for different types of metals.
- Challenge: verification of contents.