IGF-OECD BEPS in Mining Program

Issue 2:
Transfer Pricing in Mining

October 20th 2017

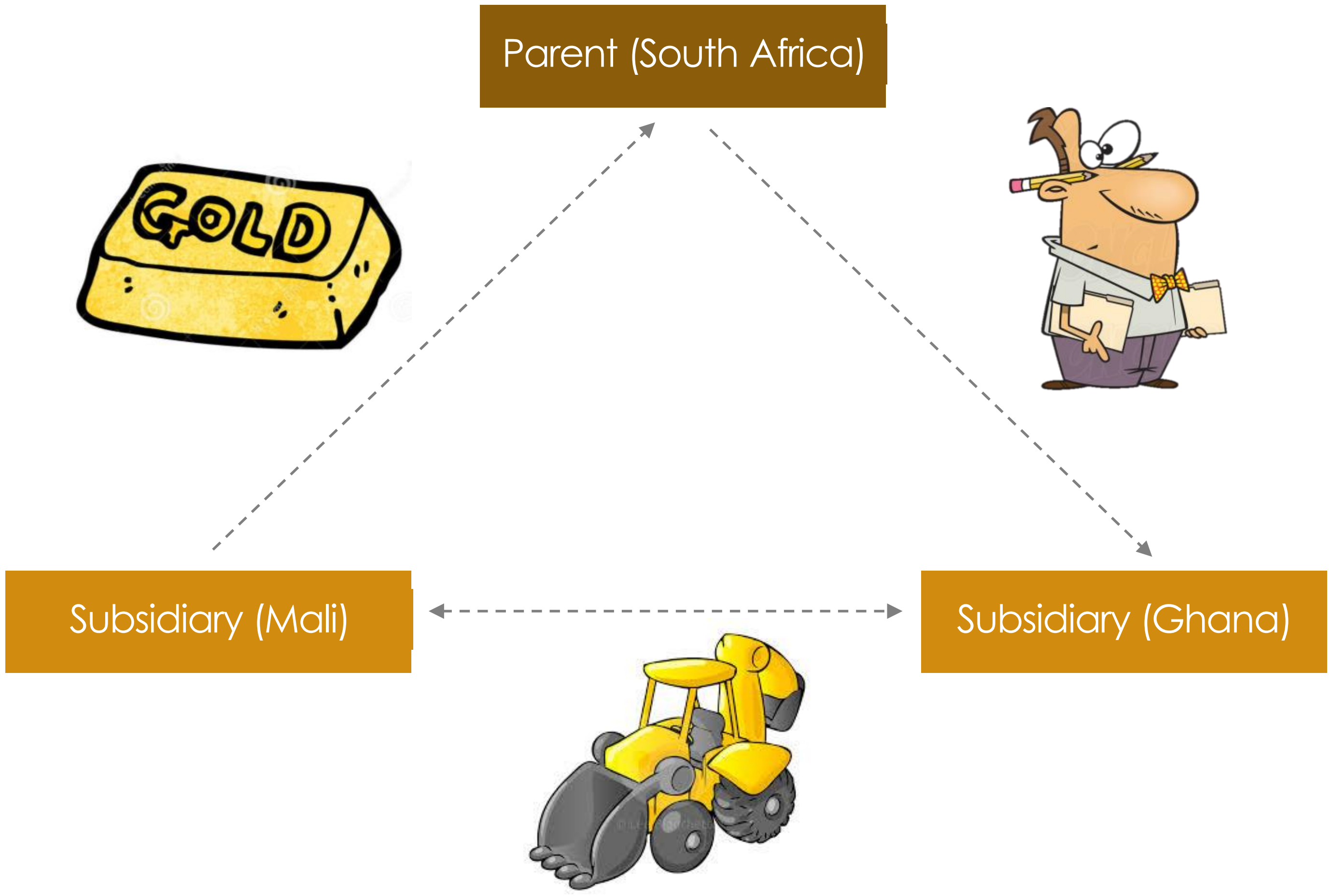
With thanks to ATAF, GIZ, and the Centre for Exploration Targeting.

Session Outline

- Key concepts and principles;
- Why transfer pricing matters;
- ATAF & GIZ Toolkit for Transfer Pricing Risk Assessment in Mining;
- Transfer pricing inputs (marketing, debt, procurement, HQ services);
- Transfer pricing outputs (pricing the sale of mineral products)
    - OECD Mineral Product Pricing Toolkit

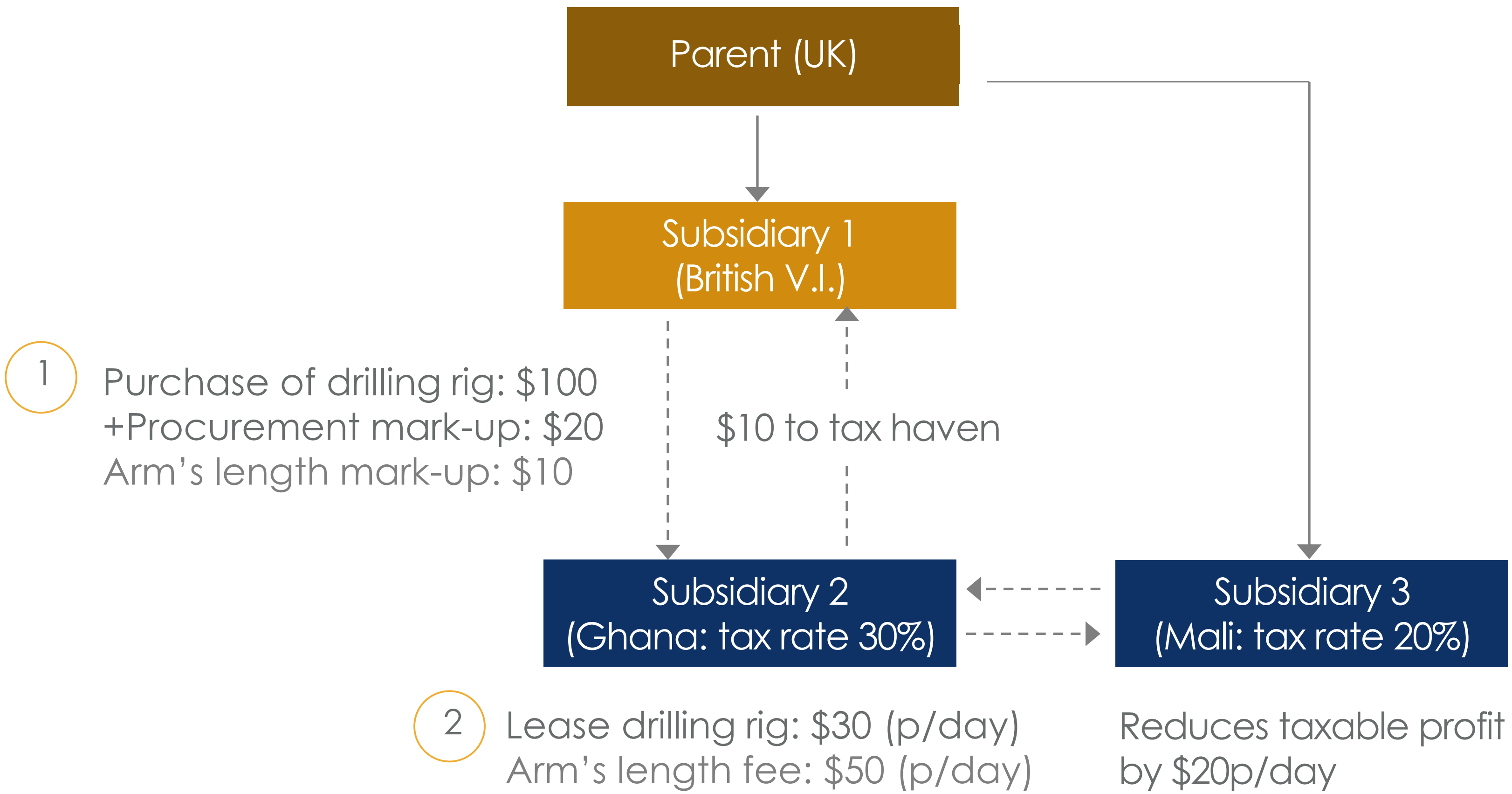
Transfer Pricing

Transfer pricing is a legitimate business practice.



Transfer Mispricing

Transfer mispricing is a tax avoidance strategy.



Transfer Mispricing in Mining

Figure 1. Mining value chain showing nature & timing of related party transactions:

Transfer of mineral products and/ or rights to related entities

Acquisition & Exploration	Construction Development	Mining & Concentration	Transport	Smelting & Refining	Trading Marketing & Sales

Provision of corporate and financial services and assets by related entities

Financing

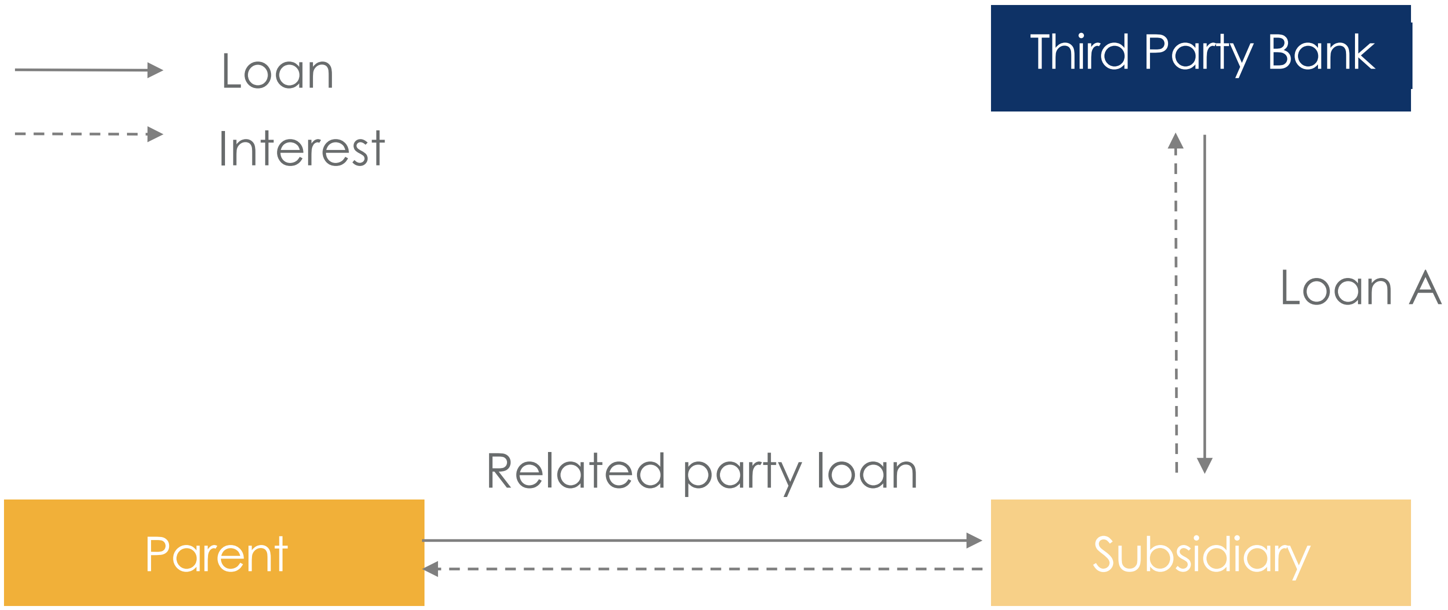
Corporate and support services

Tangible and intangible assets/ Research and development/ intellectual property

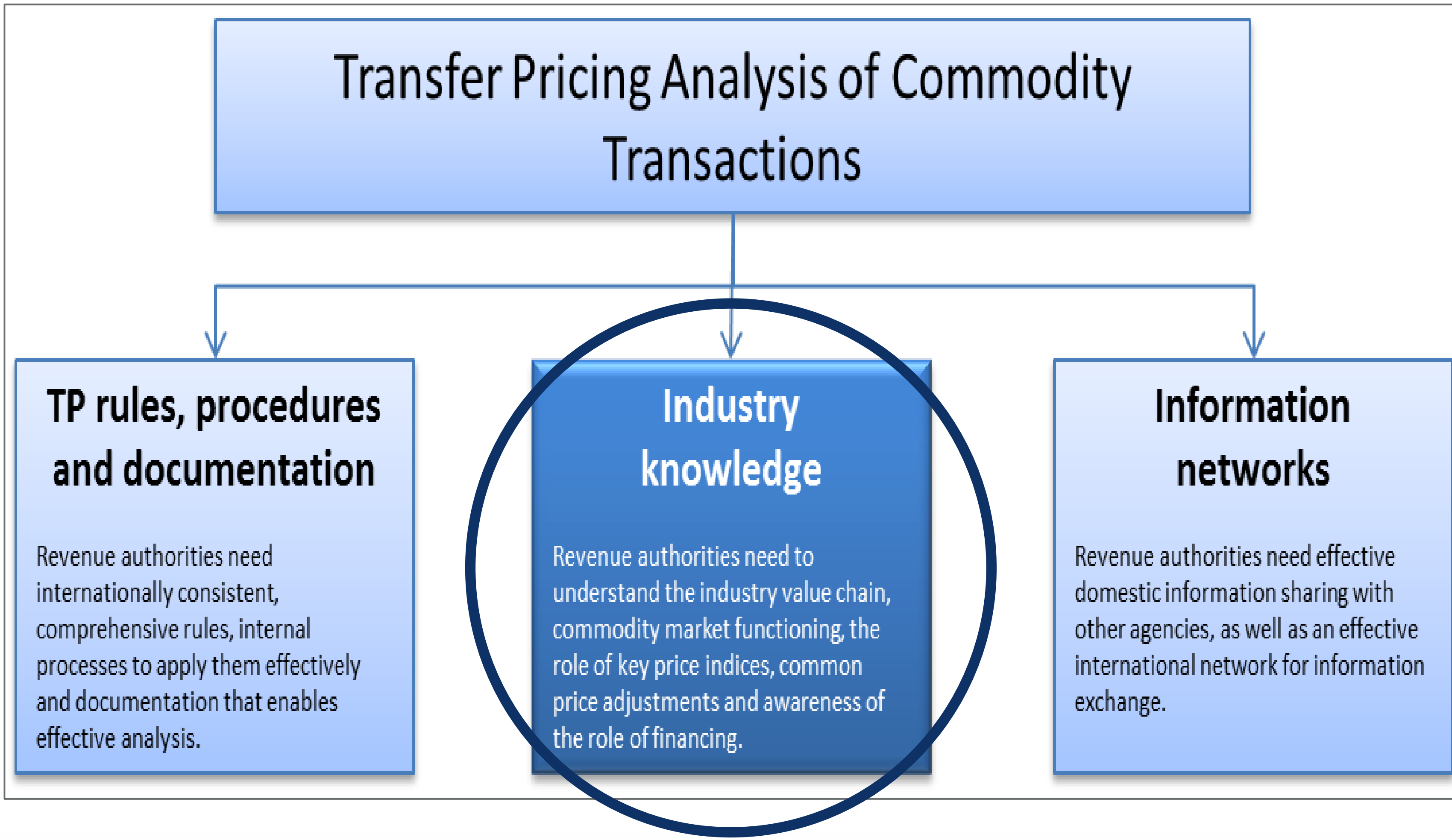
Source: Institute for Mining for Development, 2014

Arm's Length Principle

The amount charged by one related party to another should be the same as if the two companies were unrelated.



Building Blocks in Transfer Pricing Analysis



Challenges Implementing the Arm’s Length Principle

- Lack of comparable data from uncontrolled transactions;
- For some transactions comparables may not exist (e.g. Chevron)
- Problems accessing information from other tax jurisdictions;
- Complexity of transfer pricing methods;
- Limited transfer pricing expertise;
- Can involve significant time, effort and expense.