

Pricing methodology for Kazakhstan's share in the North Caspian Sea Production Sharing Agreement

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The Government issued Decree #653 in November 2016 establishing the methodology for pricing export sales of crude oil that represents Kazakhstan's share in the North Caspian Sea Production Sharing Agreement (the "NCS PSA").

The Decree refers to Kazakhstan's Law on transfer pricing ("TP") of 2008, that gives a right to the Government to determine a pricing methodology by issuing a decree providing protection from TP adjustments.

The Methodology prescribes rules for determining prices relative to export shipments of crude oil using the Caspian Pipeline Consortium infrastructure, the Atyrau-Samara route to Black Sea ports and Baltic Sea ports, and the "Druzhba" pipeline to Eastern Europe.

Although the Methodology is intended specifically for Kazakhstan's share, the tax authorities may view the Methodology as a basis for their transfer pricing analysis of export sales of crude oil by the contractors under the NCS PSA.

The Methodology is very similar to a draft of a general methodology that has been developed by a joint working group of crude oil industry participants and the State Revenue Committee of the Ministry of Finance of Kazakhstan also involving PwC's TP team. This general methodology is expected to be approved and introduced shortly and will be used commonly for TP analysis of export sales of crude oil. We already see that tax authorities have started applying technical positions from the draft general methodology in TP audits.

Please contact us if you would like to assess respective implications for your own export sales of crude oil.

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