

TRANSFER PRICING

Strategic Enabler for Navigating
Supply Chain Volatility

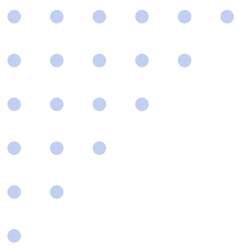




Recent geopolitical developments in the Middle East have highlighted the sensitivity of global supply chains to external disruptions, driving changes in trade flows, procurement patterns, and cost structures. Against this backdrop, businesses may need to reassess their Transfer Pricing policies to align with evolving commercial realities, strengthen operational resilience, and support tax defensibility.

This publication explores the implications from a UAE Transfer Pricing perspective and how businesses can proactively respond.





Industries at the epicenter

Illustratively, impacted areas across industries and sectors may be:



Logistics and shipping:

- Trade route realignments extending transit timelines
- Higher freight and insurance cost pressures



Aviation:

- Airspace restrictions reshaping airline route economics
- Fuel cost movements influencing consumer pricing



Hospitality:

- Promotional pricing dynamics influencing occupancy and revenue realisation
- Planning and forecasting becoming increasingly complex
- Global airspace limitations reshaping travel demand



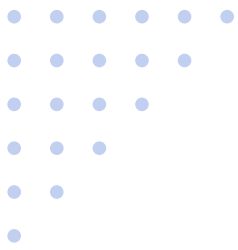
Oil & gas:

- Crude and LNG price movements affecting costs
- Supply flow shifts influencing operational planning



Retail and e-commerce groups:

- Moderation in consumer demand patterns
- Changes in vendor base affecting procurement costs
- Centralized procurement models facing higher sourcing costs
- Strategic recalibration of working capital management



Industries at the epicenter

Illustratively, impacted areas across industries and sectors may be:



Real estate:

- Shifts in consumer sentiment influencing buying decisions
- Changes in construction cycles affecting delivery timelines



Chemicals & Petrochemicals:

- Feedstock price movements affecting cost structures
- Procurement schedule variance influencing production planning and output consistency



Technology & Data Centers:

- Businesses are prioritizing uninterrupted service delivery and hence, operational continuity planning is gaining strategic importance



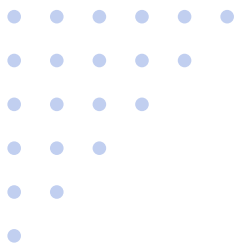
Financial Services:

- Market developments influencing funding requirements
- Liquidity management becoming increasingly important



Manufacturers and Captive Service Providers:

- Changes in demand patterns affecting capacity utilization
- Evolving circumstances creating a mix of operational and exceptional cost elements
- Workforce shifts influencing talent availability and operations
- Management fee structures being revisited



The Interplay: Aligning TP policies with operational realities

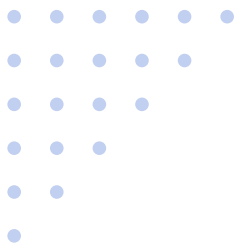
Supply chain disruptions and evolving business dynamics have a direct bearing on Transfer Pricing outcomes, requiring a nuanced evaluation of existing TP frameworks:



Characterization vs Reality:

Supply chain disruptions often alter operating models, with group entities assuming incremental functions and risks. Such changes may warrant reassessment of the entities' functional characterisation and alignment of Transfer Pricing policies with the actual conduct of the parties.

Illustratively, evaluation and assessment of following is crucial:



- Changes, especially incremental, in functions performed or risks assumed vis-à-vis prior years
- Assured margin outcomes for limited-risk entities in line with prevailing economic conditions
- Elevated inventory levels and cost volatility aligned with the entity's functional profile
- Operational versus abnormal/non-recurring costs in determining arm's length outcomes
- Allocation of costs to entities that are capable of and bear the risks

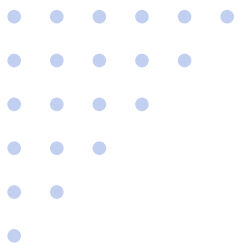
In an evolving environment, businesses should assess whether actual conduct remains aligned with documented TP characterization and whether TP policies require reassessment.

Contractual arrangements and renegotiations:

- Changes in commercial terms, including renegotiations and non-fulfilment scenarios (e.g., force majeure scenarios)
- Impact of revenue and cost allocations across the value chain
- Pressure on margins and allocation of non-routine costs or losses



Contract renegotiations and revised commercial terms should be evaluated to ensure alignment with the arm's length principle.

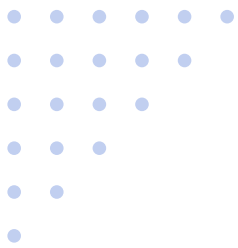


Treasury and working capital changes

Following factors may warrant reassessment of intra-group financing arrangements:

- Variations in working capital requirements and liquidity position
- Delayed collections and dynamic creditor/debtor cycles
- Unforeseen fluctuations from unbudgeted revenues and costs
- Currency volatility resulting in unanticipated cost escalations

Groups should assess whether evolving working capital positions and financing arrangements continue to support arm's length pricing and terms.



Business restructuring implications

Supply chain disruptions may trigger business restructurings requiring arm's length evaluation, including:

- Transfer of functions, assets, or risks across group entities
- Reassessment of functional and risk profiles
- Evaluation of compensation mechanisms, including potential exit charges



Business should assess whether evolving functional and risk allocations reflect temporary responses or a sustained realignment of the business and value chain.

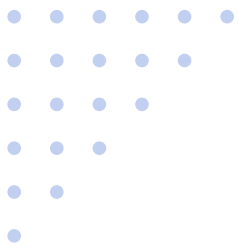


Margin volatility and comparability considerations

In the absence of reliable comparable data in the UAE, greater reliance may be placed on alternate support mechanisms:

- Robust regional industry analysis
- Use of internal comparable data, wherever available
- Reference to OECD guidance and COVID-19 learnings
- Emphasize on transactional or price-based testing where market volatility affects reliability of margin level outcomes

Data limitations in the region may necessitate supplementing benchmarking with broader economic and industry analysis to support arm's length positions.



TP audit and controversy

Tax authority scrutiny cannot be ruled out, particularly in loss-making or volatile business scenarios. In this context, businesses should closely evaluate:

- Robust and contemporaneous TP documentation
- Periodic monitoring of TP outcomes and deviations from historical results
- Clear commercial rationale for non-routine outcomes
- Strong audit trails and supporting documentation
- Budget-versus-actual analysis supporting business impact
- Substantiation of non-recurring and market-driven costs or losses



Extraordinary circumstances heighten the importance of robust documentation, strong audit trails, and clear substantiation of deviations from historical TP outcomes.



Strategic Path Forward

In the current landscape, Transfer Pricing needs to evolve from a static, documentation-driven exercise to a dynamic framework embedded within business operations. To achieve this, businesses should:



Undertake **real-time assessment** of supply chain developments and **implement periodic monitoring** of TP outcomes, rather than relying solely on year-end true-ups.

Identify and appropriately distinguish operational costs and **extraordinary or non-recurring costs**, including their impact on profitability and arm's length outcomes.



Revisit intercompany agreements and risk allocation to ensure that they are aligned with actual conduct and evolving business models.



Stress-test benchmarking

positions and consider the use of alternate or multiple methods, as permitted under UAE TP regulations.



Incorporate robust **industry and competitor insights**, specifically regional, to contextualize and justify financial outcomes.

Embed operational TP controls

within supply chain, procurement, and finance functions to ensure consistent execution.



Beyond compliance, Transfer Pricing serves as a strategic tool for aligning TP models with evolving business realities. In periods of volatility, it enables businesses to reassess functional profiles, recalibrate risk allocation, and realign value creation across group entities.

OUR TEAM

UAE CONTACTS

NIMISH GOEL
Leader, Middle East
nimish.goel@dhruvaadvisors.com
Tel (UAE): +971 50 106 6531
Tel (KSA): +966 54 760 1600

BHAKTI THAKKER
Partner
bhakti.thakker@dhruvaadvisors.com
Tel: +971 54 305 4720

GEET SHAH
Partner
geet.shah@dhruvaadvisors.com
Tel: +971 50 106 9034

KAPIL BHATNAGAR
Partner
kapil.bhatnagar@dhruvaadvisors.com
Tel: + 971 50 868 36207

RAKESH JAIN
Partner
rakesh.jain@dhruvaadvisors.com
Tel: +971 50 135 2319

SANDEEP KUMAR
Partner
sandeep.kumar@dhruvaadvisors.com
Tel: +971 50 504 8787

UJJWAL KUMAR PAWRA
Partner
ujjwal.pawra@dhruvaadvisors.com
Tel: +971 50 199 3363

VLAD SKIBUNOV
Partner
vlad.skibunov@dhruvaadvisors.com
Tel: + 971 54 404 0510

FRAN WILHELM
Associate Partner
fran.wilhelm@dhruvaadvisors.com
Tel: +971 58 152 8008

MONIKA MINDSZENTI
Associate Partner
monika.mindszenti@dhruvaadvisors.com
Tel: +971 54 997 0589

SHIRAZ SALEEMI
Associate Partner
shiraz.saleemi@dhruvaadvisors.com
Tel: +971 50 660 2520

KSA CONTACTS

MANISH BANSAL
Associate Partner
manish.bansal@dhruvaadvisors.com
Tel: +966 54 645 0681

GOPAL AGARWAL
Director
gopal.agarwal@dhruvaadvisors.com
Tel: +966 54 806 9633

DUBAI

204, Emaar Square,
Building 4, PO Box 127165,
Dubai, UAE
Tel: + 971-4240-8477

ABU DHABI

1905, Addax Tower City of
Lights, Al Reem Island,
Abu Dhabi, UAE
Tel : +971-2678-0054

SAUDI ARABIA

308, 7775 King Fahd Road,
Al Olaya, 2970, Riyadh 12212,
Saudi Arabia



www.dhruvaconsultants.com

Disclaimer:

This information contained herein is in summary form and is therefore intended for general guidance only. This publication is not intended to address the circumstances of any particular individual or entity. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. This publication is not a substitute for detailed research and opinion. Before acting on any matters contained herein, reference should be made to subject matter experts and professional judgment needs to be exercised. Dhruva Consultants will not accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication.