



On approval of the Rules (methodology) of pricing for cold-rolled, hot-rolled and galvanized steel according to the HS codes 7208, 7209, 7210, 7225

Unofficial translation

Government of the Republic of Kazakhstan dated October 1, 2019 No. 728.

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In accordance with subparagraph 3) of paragraph 10 of article 10 of the Law of the Republic of Kazakhstan dated July 5, 2008 “On transfer pricing”, the Government of the Republic of Kazakhstan RESOLVES:

1. To approve the attached Rules (methodology) of pricing for cold-rolled, hot-rolled and galvanized steel according to the HS codes 7208, 7209, 7210, 7225.
2. The control over the implementation of this resolution shall be assigned to the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan.
3. This resolution becomes effective from January 1, 2009 and is subject to official publication.

Prime Minister Republic of Kazakhstan

A. Mamin

Approved
by the Government of the
Republic of Kazakhstan
dated October 1, 2019 No. 728

Pricing rules (methodology) for cold-rolled, hot-rolled and galvanized steel according to the HS codes 7208, 7209, 7210, 7225

General Provisions

1. These Rules (methodology) of pricing for cold-rolled, hot-rolled and galvanized steel according to the HS codes 7208, 7209, 7210, 7225 (hereinafter referred to as the Rules) establish the procedure for determining (calculating) the price of transactions (sales) when making export transactions on purchase and sale cold rolled, hot rolled and galvanized steel according to the HS codes 7208, 7209, 7210, 7225.
2. The validity of these Rules applies to the supply of cold-rolled, hot-rolled and galvanized steel under the conditions specified in these Rules.

Terms and definitions used in these Rules

3. The following terms and definitions are used in these Rules:

- 1) price range - a number of market prices, limited by the minimum and maximum values of market prices determined as a result of applying one of the methods for determining

market prices or information sources in the manner established by the Law of the Republic of Kazakhstan dated July 5, 2008 “On transfer pricing” (hereinafter - Law);

2) differential - the amount of adjustment used to bring the transaction price or the price from the source of information into comparable economic conditions in accordance with the Law and these Rules;

3) delivery bases - terms of a foreign trade transaction, providing for the distribution of responsibilities between the seller and the buyer for the promotion of goods, the preparation of relevant documents and payment of transport costs, determining the moment of transfer from the seller to the buyer of ownership of the goods, the risk of accidental damage or loss of goods, and also the date delivery;

4) galvanized steel (coated with vintage zinc) - flat products made of iron or steel, clad, galvanized or otherwise coated;

5) cold-rolled steel - flat-rolled products made of iron or steel, cold-rolled (cold-pressed), uncoated, without galvanic or other coating;

6) HS code 7208 - flat-rolled products of iron or unalloyed steel 600 mm wide or more, hot-rolled, uncoated without galvanic or other coating;

7) HS code 7209 - flat-rolled products of iron or non-alloy steel, 600 mm wide or more, cold-rolled (cold-pressed, uncoated, without galvanic or other coating;

8) HS code 7210 - flat-rolled products of iron or non-alloy steel, 600 mm or more wide, clad, plated, or otherwise coated;

9) HS code 7225 - flat-rolled products of other types of alloy steels, 600 mm wide or more ;

10) technical specification - an additional annex to the contract, in which the basic terms of delivery (goods, volume, period, cost, quality of goods) are agreed;

11) the relevant market is the market of destination (supply) of cold rolled, hot rolled and galvanized steel, on which the market price is formed, or the market on the basis of which the market of destination (supply) of cold rolled, hot rolled and galvanized steel is objectively formed and (or) the market price is determined ;

12) hot-rolled steel - flat-rolled products made of iron or steel, hot-rolled, uncoated, without galvanic or other coating;

13) CIS FOB Black Sea - prices published by the source of information by Metal Bulletin magazine, which reflect the prices of cold-rolled, hot-rolled and galvanized steel, sold on FOB terms the main ports of the Black Sea;

14) FOB "Free On Board (free board" Free on board ") - the basis of delivery in accordance with Incoterms 2010 (or another version of Incoterms, which will be valid at the time of the transaction). If the contract establishes other provisions regarding the applicable basis, the provisions stipulated by the contract are used.

4. In these Rules, to determine market prices for cold-rolled, hot-rolled and galvanized steel, the source of information is used: Metal Bulletin magazine (Great Britain).

Appropriate market for the use of information source

5. The relevant market for cold-rolled, hot-rolled and galvanized steel (and in the absence of similar goods) is the destination (supply) market of cold-rolled, hot-rolled and galvanized steel, on which the market price is formed, or the market on the basis of which the destination (supply) market cold rolled, hot rolled and galvanized steel is objectively formed and (or) the market price is determined.

6. When supplying cold-rolled, hot-rolled and galvanized steel to the destination market (supply), at which the market price is formed, the corresponding market for applying the source of information is determined on the basis of the consignee's data specified in the cargo customs declaration and shipping documents of the exporter.

7. When supplying cold-rolled, hot-rolled and galvanized steel to countries subject to sanctions, state regulation or other measures to restrict free trade, the relevant market for determining the price from a source of information is the market on the basis of which it is objectively formed and (or) determined market price in the destination market. The destination market is determined on the basis of the data of the consignee specified in the cargo customs declaration and shipping documents of the exporter.

Transaction participants

8. For the purposes of these Rules, the parties to the transaction controlled in accordance with the Law are the supplier (manufacturing plant) and the party to which the trader (trading broker, agent, intermediary) sells cold-rolled, hot-rolled and galvanized steel, subject to the following conditions:

1) if the supply of cold-rolled, hot-rolled and galvanized steel is carried out through a trader (trading broker, agent, intermediary);

2) if the trader (trading broker, agent, intermediary) concludes a subsequent transaction on the terms similar to those agreed with the participant in the transaction controlled in accordance with the Law taking into account the margin of the trader (trading broker, agent, intermediary).

9. In order to confirm the presence of the transactions indicated above, in accordance with Section 5 of the Law, the trader (trading broker, agent, intermediary) submits to the authorized body documents (contracts, accounts with the subsequent buyer) confirming similar conditions.

Applying prices from sources of information

10. When supplying cold-rolled, hot-rolled and galvanized steel to the market of destination (supply) of goods and the availability of documented information on the route of transportation to such a market (with the exception of countries for which sanctions, state

regulation or other measures to restrict free trade are applied), where there is a comparable uncontrolled price in the source of information, the price from the source of information is applied taking into account the price range. The transaction price is reduced through a differential to comparable economic conditions with a market price.

11. When supplying cold-rolled, hot-rolled and galvanized steel to markets for which there is no comparable uncontrolled price in the source of information, as well as to markets for which sanctions, government regulation or other measures to restrict free trade are applied, the market price is determined by adjusting the price from a source of information on the market, on the basis of which the market price on the destination market is objectively formed and (or) determined through the differential to comparable economic conditions with the transaction price taking into account the price range.

12. To determine the market price for cold-rolled, hot-rolled and galvanized steel, the parties to the transaction use prices that are determined in accordance with the procedure for determining the price of cold-rolled, hot-rolled and galvanized steel established in these Rules.

13. The components of the differential must be reasonable and documented and / or sources of information. The transaction participant submits documents and information sources confirming the components of the differential to the authorized body in accordance with Article 5 of the Law.

The procedure for determining the price of cold rolled and hot rolled steel for sales on the terms of FOB Aktau in transactions for which there is documented information on the route to the relevant market

14. When selling cold-rolled and hot-rolled steel on the terms of FOB Aktau, the relevant markets are the coastal ports of the Black Sea.

15. For transactions for which there is documented information on the transportation route to the relevant markets where there is a price at the source of information, the market price is defined as the price from the source of information taking into account the price range in accordance with subparagraph 1) of paragraph 4 of Article 13 of the Law.

$$P_c = Q_{ist}$$

Where:

P_c - market price for hot-rolled or cold-rolled steel, determined in accordance with these Rules;

Q is the price of CIS export hot rolled coil \$ / t FOB Black Sea for hot rolled steel and the price of CIS export cold rolled coil \$ / t FOB Black Sea for cold rolled steel for 1 (one) ton published in Metal magazine Bulletin ", defined as the arithmetic mean of the minimum and maximum prices on the date of the technical specification (additional appendix to the contract for the sale of hot-rolled, cold-rolled steel) according to the following formula:

$$Q_{ist} = (Q_{yst \min.} + Q_{ist \max.}) / 2$$

Where:

Qist min. - the minimum value of the price published in the Metal Bulletin magazine on the date of the technical specification (an additional appendix to the contract for the sale of cold rolled, hot rolled steel);

Qist max. - the maximum value of the price published in the Metal Bulletin magazine on the date of the technical specification (an additional appendix to the contract for the sale of cold rolled, hot rolled steel).

16. The transaction price is brought through the differential to comparable economic conditions with a market price according to the following formula:

$$P_{adj} = P_c + D$$

Where:

P_{adj} - transaction price reduced by a differential to comparable economic conditions with the market price;

P_c is the selling price of cold-rolled, hot-rolled steel, defined in the contract and shipping documents, according to which its actual sale was made;

D is the differential used to bring the market price to the transaction price in comparable economic conditions, in accordance with the Law .

17. The differential includes justified and documented and (or) sources of information costs necessary for the delivery of cold rolled and hot rolled steel to the destination market (supply) of goods at which the market price is formed.

18. The differential may include:

1) the costs required for the delivery of cold rolled and hot rolled steel from the port of Aktau to the place where the price of CIS export hot rolled coil \$ / t FOB Black Sea and the price of CIS export cold rolled coil \$ / t FOB Black are determined Sea ”on cold rolled steel, including:

ship freight costs;

excess ship downtime expenses;

cargo insurance expenses;

port charges;

transshipment expenses;

cargo inspection costs;

bank expenses for opening and servicing a letter of credit;

bank expenses for early payment and prepayment;

rail transportation costs;

costs of forwarding and execution of forwarding documents;

freight forwarder margin;

environmental fees;

2) a discount on quality from the market price indicated in the source of information, depending on the grade of steel according to GOST:

- 6% - first grade;
- 10% - second grade;
- 20% - third grade;
- 30% - illiquid cold-rolled, hot-rolled steel.

19. The components of the differential are documented and / or sources of information in the sequence established by Article 18 of the Law.

The procedure for determining the price of cold rolled and hot rolled steel for sales on the terms of FOB Aktau in transactions for which there is no documented information on the route to the relevant market

20. For transactions for which there is no documented information on the route of transportation to the relevant market, the market price is determined by bringing the price from the source of information in the relevant market through the differential to comparable economic conditions with the transaction price taking into account the price range in accordance with subparagraph 2) Clause 4 of Article 13 of the Law according to the following formula:

$$P_c = - D$$

Where:

P_c - market price for hot-rolled or cold-rolled steel, determined in accordance with these Rules;

Qist - the price of "CIS export hot rolled coil \$ / t FOB Black Sea" for hot rolled steel and the price of "CIS export cold rolled coil \$ / t FOB Black Sea" for cold rolled steel for 1 (one) ton published in Metal Bulletin ", Defined as the arithmetic mean of the minimum and maximum prices on the date of the technical specification (additional annex to the contract for the sale of hot-rolled, cold-rolled steel) according to the following formula:

$$Q_{ist} = (Q_{yst \min.} + Q_{ist \max.}) / 2$$

Where:

Qist min. - the minimum value of the price published in the Metal Bulletin magazine on the date of the technical specification (an additional appendix to the contract for the sale of cold rolled, hot rolled steel);

Qist max. - the maximum value of the price published in the Metal Bulletin magazine on the date of the technical specification (an additional appendix to the contract for the sale of cold rolled, hot rolled steel).

D is the differential used to bring the market price to the transaction price in comparable economic conditions, in accordance with the Law .

21. The differential includes the expenses justified and documented by the sources of information necessary for the delivery of cold-rolled and hot-rolled steel to the market of destination (supply) of goods at which the market price is formed, or the market on the basis of which on the market of destination (supply) of goods the market price is objectively

formed and (or) determined. The differential may include a discount on quality from the market price indicated in the source of information, depending on the grade of steel according to GOST:

6% - first grade;

10% - second grade;

20% - third grade;

30% - illiquid cold-rolled, hot-rolled steel.

22. The components of the differential are documented and / or sources of information in the sequence established by Article 18 of the Law.

The procedure for determining the price of galvanized steel for deliveries on FOB Aktau terms in transactions for which there is documented information on the route to the relevant market

23. When selling galvanized steel on FOB Aktau terms, the Black Sea coastal ports are the relevant markets. If sources of information do not publish quotes for galvanized steel in the relevant market, the price from the source of information is determined with reference to the cost of hot-rolled steel, taking into account the quality premium.

24. For transactions for which there is documented information on the route to the relevant market where there is a price at the source of information, the market price is determined as the price from the source of information taking into account the price range in accordance with subparagraph 1) of paragraph 4 of Article 13 of the Law as follows the formula:

$$P_c = Q_{ist} + PR$$

Where:

P_c - market price for galvanized steel, determined in accordance with these Rules;

Q_{East} - the price of "CIS export hot rolled coil \$ / t FOB Black Sea" for 1 (one) ton published in Metal Bulletin magazine, defined as the arithmetic mean of the minimum and maximum prices on the date of the technical specification (additional appendix to the contract for sale of hot rolled steel) according to the following formula:

$$Q_{ist} = (Q_{yst \min.} + Q_{ist \max.}) / 2$$

Where:

$Q_{ist \min.}$ - the minimum value of the price published in the Metal Bulletin magazine at the date of the technical specification (an additional appendix to the contract for the sale of galvanized steel);

$Q_{ist \max.}$ - the maximum value of the price published in the Metal Bulletin magazine on the date of the technical specification (an additional appendix to the contract for the sale of galvanized steel);

PR - a premium of \$ 100 per 1 (one) ton.

The transaction price is reduced through a differential to comparable economic conditions with a market price according to the following formula:

$$P_{adj} = P_c + D$$

Where:

P_{adj} - transaction price reduced by a differential to comparable economic conditions with the market price;

P_c - sales price for galvanized steel, defined in the contract and shipping documents, at which its actual sale was made;

D is the differential used to bring the market price to the transaction price in comparable economic conditions in accordance with the Law .

25. The differential includes reasonable and documented costs and / or sources of information necessary for the delivery of galvanized steel to the destination market (supply) of goods at which the market price is formed.

26. The differential may include:

1) the costs required for the delivery of galvanized steel from the port of Aktau to the place where the price of “CIS export hot rolled coil \$ / t FOB Black Sea” for hot rolled steel is determined, including:

ship freight costs;

excess ship downtime expenses;

cargo insurance expenses;

port charges;

transshipment expenses;

cargo inspection costs;

bank expenses for opening and servicing a letter of credit;

bank expenses for early payment and prepayment;

rail transportation costs;

costs of forwarding and execution of forwarding documents;

freight forwarder margin;

environmental fees.

27. Discount on quality from the market price indicated in the source of information, depending on the grade of steel according to GOST:

6% - first grade;

10% - second grade;

20% - third grade;

30% - illiquid galvanized steel.

28. The components of the differential are documented and / or sources of information in the sequence established by Article 18 of the Law.

The procedure for determining the price of galvanized steel for deliveries on FOB Aktau terms in transactions for which there is no documented information on the route of transportation to the relevant market

29. For transactions for which there is no documented information on the route of transportation to the relevant market, the market price is determined by bringing the price from the source of information in the relevant market through the differential to comparable economic conditions with the transaction price taking into account the price range in accordance with subparagraph 2) paragraph 4 of Article 13 of the Law according to the following formula:

$$P_c = Q_{ist} + PR - D$$

Where:

P_c - market price for galvanized steel, determined in accordance with these Rules;

Q_{ist} - price “CIS export hot rolled coil \$ / t FOB Black Sea” for 1 (one) ton published in Metal Bulletin magazine, defined as the arithmetic mean of the minimum and maximum prices on the date of the technical specification (additional appendix to the purchase contract - sale of hot rolled steel) according to the following formula:

$$Q_{ist} = (Q_{yst \min.} + Q_{ist \max.}) / 2$$

Where:

$Q_{ist \min.}$ - the minimum value of the price published in the Metal Bulletin magazine at the date of the technical specification (an additional appendix to the contract for the sale of galvanized steel);

$Q_{ist \max.}$ - the maximum value of the price published in the Metal Bulletin magazine on the date of the technical specification (an additional appendix to the contract for the sale of galvanized steel);

PR - premium in the amount of 100 US dollars for 1 (one) ton;

D is the differential used to bring the market price to the transaction price in comparable economic conditions in accordance with the Law .

30. The differential includes reasonable and documented and (or) sources of information costs necessary for the delivery of galvanized steel to the market of destination (supply) of goods at which the market price is formed, or the market on the basis of which the market of destination (supply) of goods is objectively formed and (or) the market price is determined.

31. The differential may include a discount on quality from the market price indicated in the source of information, depending on the grade of steel according to GOST:

6% - first grade;

10% - second grade;

20% - third grade;

30% - illiquid galvanized steel.

32. The components of the differential are documented and / or sources of information in the sequence established by Article 18 of the Law.

Use of weekly quotes

33. If the sources of information do not publish daily prices and information is available only for weekly prices, for the purpose of applying these Rules the actual price of the transaction (sale) is brought into comparable conditions with the price from the source of information by calculating the average price of the transaction for week according to the following formula:

$PW = \text{revenue from sales of steel} / \text{volume},$

Where:

PW - the average transaction price per week.

Revenues from the sold type of steel - the actual proceeds from the sold type of steel according to invoices for transactions completed per week (Monday to Sunday), which is determined based on the date of the technical specification (additional appendix to the contract for the sale of steel).

Volume - the actual volume of the sold type of steel according to the invoice-factories for transactions completed during the week (Monday to Sunday), which is determined based on the date of the technical specification (additional annex to the contract for the sale of steel).

34. To determine the serial number of the week, the first week of each calendar year is the week on which January 1 falls in the corresponding calendar year.

The use of differential components

35. To bring the transaction price into comparable economic conditions with the price from the information source or the price from the information source into comparable economic conditions with the transaction price, the differential is taken into account.

36. The differential includes justified and documented and (or) sources of information costs necessary for the delivery of cold rolled, hot rolled and galvanized steel to the relevant market and to ensure comparability of economic conditions.

37. The dimensions of the components of the differential, confirmed by primary documents, are taken into account in full. In other cases, the dimensions of the components of the differential are taken in accordance with the sources of information provided for in Article 18 of the Law.

Definition of the components of the differential and documents (information) confirming the differential

38. The cost of sea transportation (freight) is confirmed by charter contracts (charterparty, time-charter) or extracts from the ship's freight contracts, invoices for payment and buyer's calculations of the cost of freight for 1 (one) ton or data from information sources.

39. The cost of the vessel's freight is determined on the date of chartering the vessel. In the absence of primary documents on the vessel's freight, the cost of freight is determined as the average value 10-25 days before the date of the sea bill of lading according to information sources.

40. The cost of excess ship downtime is confirmed by timesheet and invoices.

41. The cost of insurance of goods during transportation by sea, rail or other means of transport is confirmed by contracts or insurance policies, or invoices for payment (invoice), the buyer's calculations of the cost of insurance or sources of information.

42. The cost of the fee at the port is confirmed by service agreements, payment invoices (invoices) or information sources.

43. The cost of transshipment costs at ports is confirmed by contracts, invoices (invoices) or information sources.

44. The cost of cargo inspection to determine the quality and quantity of cargo is confirmed by contracts for the provision of inspection services, invoices for payment (invoice), calculations of the buyer of the cost of inspection, reports of independent inspection companies or information sources.

45. The cost of bank expenses for opening and servicing an irrevocable letter of credit is confirmed by the following documents:

- 1) contracts for the sale of goods, which stipulate the terms of a bank letter of credit;
- 2) confirmation of the bank on the opening of the letter of credit in favor of the supplier (manufacturing plant) and bank costs for opening the letter of credit;
- 3) transcripts with the mark and signature of the buyer for each individual delivery, indicating the name of the vessel, the date of shipment of the goods, volumes in tons, interest rate of the bank, the amount of the letter of credit and the amount of bank expenses per ton.

46. Bank expenses are confirmed by the terms of the sales contract and bank statements confirming payment for the goods for the relevant period. At the same time, such expenses should not exceed the market price determined on the basis of data from official sources of information on comparable transactions in comparable economic conditions (taking into account the borrower's credit rating, period, volume, loan term, country and industry risks).

47. The cost of rail transportation is confirmed by contracts, invoices for payment (invoice) or data from information sources or data from national carriers (JSC Kazakhstan Temir Zholy, etc.), or data from the Rail-Tariff information program.

48. When determining the cost of rail transportation, the margin of the forwarder is taken into account. Forwarder margin is confirmed by contracts, invoices or information sources.

49. Environmental fees.

50. Transportation and associated costs on routes from Aktau to the corresponding ports of the Black Sea are confirmed by the following documents (information):

1) rail transportation: rental of wagons and return of empty trains, dispatching, port charges at the port of Aktau, freight forwarding clearance at the port of Aktau and other associated costs - by contracts, invoices for payment (invoice) or sources of information;

2) ship freight in the Caspian Sea - by freight / charter agreements, invoices for payment (invoice) or sources of information;

3) port dues in the port of Aktau - by contracts, invoices for payment (invoice) or sources of information;

4) inspection - by agreements, payment invoices (invoice), reports of the inspection carried out or information sources;

5) cargo insurance - by contracts or insurance policies, payment invoices (invoice), calculations of the carrier / forwarder of the cost of insurance or sources of information;

6) remuneration (margin) of the carrier / forwarder - by the transportation agreement or invoices for payment (invoice) or sources of information.