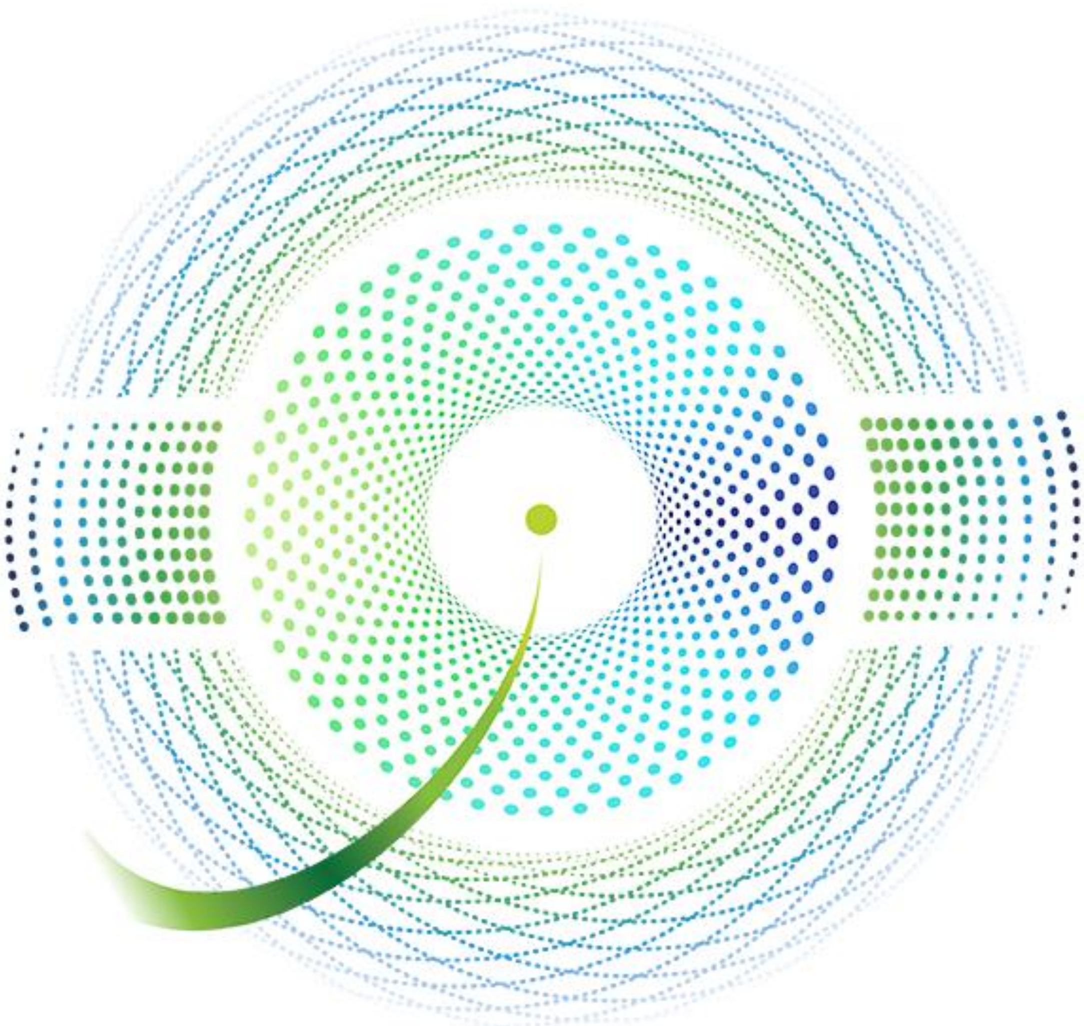


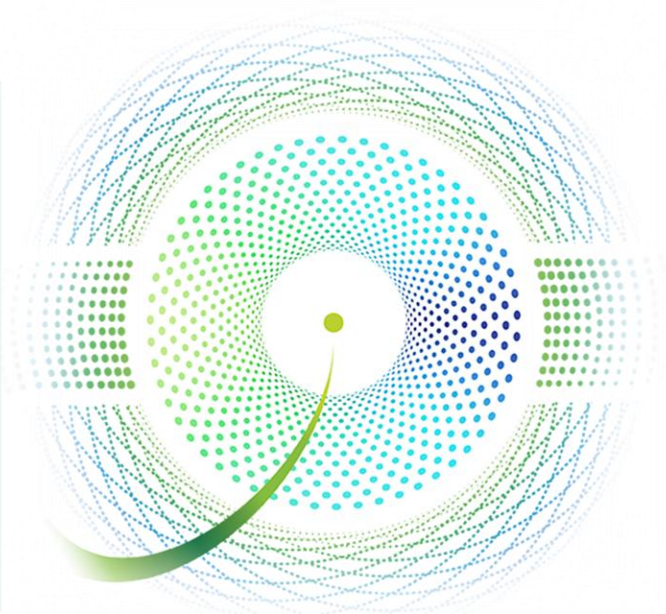
Transfer pricing in a disrupted region

Compliance priorities for multinational enterprises (MNEs) in the Middle East

June 2026

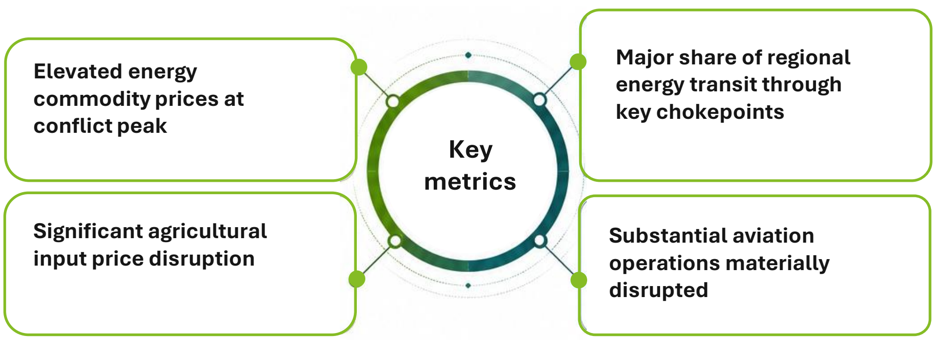
The ongoing conflict within the Middle East has created a compliance environment that transfer pricing (TP) professionals have rarely encountered: The foundational assumptions of the discipline—stable comparables, performing intercompany agreements, and predictable functional profiles—are being disrupted simultaneously and at speed.

The arm's length principle was designed to govern related-party transactions by reference to what independent parties would agree in comparable circumstances. It was not designed with a geopolitical falling-out in mind. When regional tensions disrupt the energy flow, close transit corridors, trigger force majeure across sectors, and reprice risk across commodities, logistics, and financial markets in a matter of weeks, the comparability frameworks that underpin the TP analysis come under extraordinary stress. Under this stress, benchmarks become stale, the intercompany agreements become non-performing, limited risk entities have to absorb losses their functional profiles never contemplated, and tax authorities armed with hindsight begin building audit positions that taxpayers documenting in real time are not equipped to anticipate. For multinationals with related party arrangements, spanning in the ME is not a theoretical concern, it is an immediate and material compliance exposure.



This article examines how the conflict within the region is transmitting into TP risk across region's key sectors. These include Energy, Logistics, Agri business, Financial Services and Construction, with a particular focus on the Kingdom of Saudi Arabia (KSA) where Zakat, Tax and Customs Authority (ZATCA)'s growing enforcement sophistication intersects with direct economic shockwaves of the conflict. That is structured around three questions that every affected MNE should be asking: how are existing intercompany agreements breaking down; where are the benchmarking frameworks failing; and what must be done now, both to protect existing TP positions and to build defensible documentation for the audit cycles that will follow.

Key metrics



The anatomy of a geopolitical pricing crisis

TP operates on a deceptively simple premise: Transactions between related parties within a multinational enterprise (MNE) group must mirror the price that independent parties would agree upon in comparable circumstances. The arm's length principle, enshrined in Article 9 of the OECD Model Tax Convention, provides the legal foundation of this discipline. But it was designed in relative peacetime, calibrated to account for market cyclicality, sector shifts, and economic slowdowns, not for the sudden obliteration of global chokepoints.

The situation has precipitated a severe collapse of tanker traffic through the Strait of Hormuz, materially affecting significant volumes of the region's crude oil and liquified natural gas (LNG) supply flows. Energy infrastructure across the region has sustained operational disruptions, force majeure declarations have proliferated across sectors, and supply chains have been materially dislocated.

The economic fallout is not merely a regional event. It constitutes a structural shock to the global economy, delivered at a moment of extraordinary fragility, arriving atop US tariff escalation and inflationary pressures that central banks in Europe and Asia had only recently begun to tame. For MNEs with related-party arrangements across the region, the compliance consequences are immediate, multifaceted, and likely enduring.

RING 1

Immediate

- Strait of Hormuz closure
- Port shutdowns
- Airspace restrictions
- Force majeure declarations
- Insurance withdrawal

RING 2

Secondary

- Elevated oil prices
- Freight surcharges
- Input cost inflation
- Foreign exchange rates volatility
- Insurance premium spikes
- Energy cost pass-through

RING 3

TP impact

- Comparable contamination
- Margin compression in low-risk entities
- Intra-group arrangements, intercompany agreements (ICAs) rendered non-performing
- Benchmarking databases obsolete
- Profit allocation disputes

How related-party arrangements break under geopolitical stress

The architecture of ICAs, cost-sharing arrangements, distribution agreements, and management service agreements is built on the assumption of continuity. Typically, the prices and margins are set on basis functional profiles and documentation is prepared annually to justify the allocation of income and costs to entities based on their economic contribution.

Geopolitical changes rupture this architecture in ways that are both subtle and legally consequential. Consider a limited-risk distributor (LRD) operating in the ME region under a principal structure, contractually shielded from market risk and entitled to a routine return on its sales function. When shipping costs surge by 200%, port access disappears, and customs routes are disrupted, that entity may find itself absorbing extraordinary costs that no arm's length independent distributor would bear without renegotiating its contract. The entity's actual economic position has diverged dramatically from its contractual functional profile. Tax authorities in the principal's jurisdiction will question why the profit center should not be bearing its share of crisis costs.

> “When a conflict event is severe enough to detach observable market prices from any recognizable comparability benchmark, the arm's length standard does not disappear—it becomes more difficult to demonstrate.”

The OECD's 2022 guidance on the TP implications of COVID-19 recognized that extraordinary circumstances can justify deviations from routine profit targets, provided that MNEs document the economic substance behind those deviations and demonstrate that the allocation of losses reflects what independent parties would have agreed. The ME crisis demands a similar analytical discipline, and a far more urgent one, given the speed of market dislocation.

It is also important to understand the stress the current environment creates on intercompany financial arrangements. ChapterX of the OECD guidelines recognizes that accurately pricing the intra-group loans and cash pools with ME region-based entities must be assessed against a lending environment in which regional counterparty risk has been repriced dramatically. If a parent entity continues advancing funds to a ME subsidiary at rates established on the basis of benchmarking exercises carried out in the year 2024 or 2025, the spread differential between those rates and current market conditions raises difficult questions as to whether the existing pricing remains arm's length or whether it constitutes a de facto subsidy thattax authorities will not accept.

Sector-by-sector: The TP stress points

Not all industries absorb such geopolitical shocks with equal magnitude. The following sectors face the most structurally significant TP dislocations from the conflict.

Energy & petrochemicals

National Oil Companies (NOCs) and MNEs with Gulf hydrocarbon operations face force majeure driven production shutdowns. Transfer prices on crude sales, LNG offtakes, and refinery feedstocks between related parties become impossible to benchmark against disrupted spot markets. Intra-group commodity pricing needs complete re-anchoring.

Key issues: CUP method failure · Force Majeure ICAs · Royalty reassessment · Advance Pricing Agreement (APA) renegotiation

Aviation & logistics

Aviation operations across the region have been materially disrupted with GCC carrier operations significantly curtailed. Related party arrangements for shared fleet capacity, maintenance services, and code share agreements face unprecedented non-performance. Freight arms of logistics MNEs report extreme surcharges that distort Transactional Net Margin Method (TNMM) benchmarking.

Key issues: Service ICA stress · TNMM range drift · Cost allocation disputes · Comparable search reset

Agribusiness & fast-moving consumer goods (FMCG)

The ME region’s role as a key artery for urea, ammonia, and fertilizer inputs has been severely disrupted, driving significant agricultural input cost inflation, FMCG MNEs with ME distribution subsidiaries now absorb input cost spikes that their limited-risk functional profiles do not contemplate.

Key issues: LRD margin squeeze · Procurement hub stress · Cost plus rebase · Loss allocation documentation

Technology & semiconductors

Regional disruptions to helium production, a critical input for semiconductor manufacturing and medical imaging, have materially tightened global specialty gas supply. Tech MNEs with related-party supply agreements for specialty gases face input shortages that impact IP heavy principal structures. The development, enhancement, maintenance, protection, and exploitation (DEMPE) function allocation becomes critical when core IP dependent production is constrained.

Key issues: Supply scarcity premium · DEMPE reanalysis · IP principal exposure · Comparability gaps

Financial services & treasury

As Saudi Arabian Interbank Offered Rate linked financing arrangements face benchmark disruption, intra-group treasury centers and cash pools with ME exposure must revisit credit risk spreads, country risk premiums in related-party loans. Insurance captives operating in the ME region are dealing with conflict risk exclusions that affect intra-group risk transfer validity.

Key issues: Loan repricing · Risk transfer validity · Cash pool stress · Country risk adjustment

Construction & infrastructure

Vision 2030 mega-projects involve extensive related-party arrangements for engineering services, equipment leasing, and project management fees. With foreign labour mobility disrupted, airspace restricted, and materials costs surging, the cost-plus benchmarks underpinning inter-company service arrangements are materially compromised. This scenario also elevates a permanent establishment (PE) risk for mobilized foreign entities.

Key issues: Cost-plus invalidation · PE risk elevation · Services ICA review · Functional re-profiling

The benchmarking problem: When comparables are contaminated

At the technical core of the current crisis lies a benchmarking challenge of unusual severity. The arm's length range, the cornerstone of every TP analysis, is derived from the observed financial outcomes of independent comparable companies. When a geopolitical shock of this magnitude ripples through global commodities, logistics, and financial markets simultaneously, the comparables relied upon in standard databases are themselves compromised.

Chapter III of the OECD Guidelines establishes that a meaningful comparability analysis requires identifying transactions where no material differences exist that could affect the relevant financial indicator, or where reasonably accurate adjustments can be made for such differences. When market disruption is severe enough to compromise the integrity of the underlying data, neither condition can be reliably satisfied.

Consider the application of the Comparable Uncontrolled Price (CUP) method for crude oil or LNG transactions. Under normal conditions, published spot prices and exchange-reported futures provide the most reliable CUPs available. But when the Strait of Hormuz closes, those spot prices cease to represent observable arm's length transactions for ME origin goods. Rather, they represent a market in which normal supply-demand equilibrium has been forcibly suspended. A CUP derived from disrupted pricing does not establish arm's length value, it reflects market dislocation, not comparability.

Similarly, TNMM based benchmarks drawn from comparable distributors or service providers will, with a reporting lag of 12–18 months, begin to reflect the crisis period in ways that are both analytically informative and tactically critical. MNEs that concluded on their transfer prices for FY 2025 before the escalation began are now holding analyses that describe an economic reality that no longer exists. Tax authorities conducting audits in 2027–2028 will have access to economic data that the taxpayer did not, and the ex-post informational asymmetry that it creates is considerable.

> “The documentation clock does not stop for conflict. If anything, it accelerates precisely when the supporting data is most unreliable”

The OECD's guidance on the use of price adjustment mechanisms and multi-year analysis provides a degree of relief, but it demands proactive application. MNEs should be revisiting their benchmarking methodologies now—not at year-end—deploying qualitative economic analysis, industry expert commentary, and contemporaneous market intelligence to bridge the gap between database staleness and prevailing economic reality.

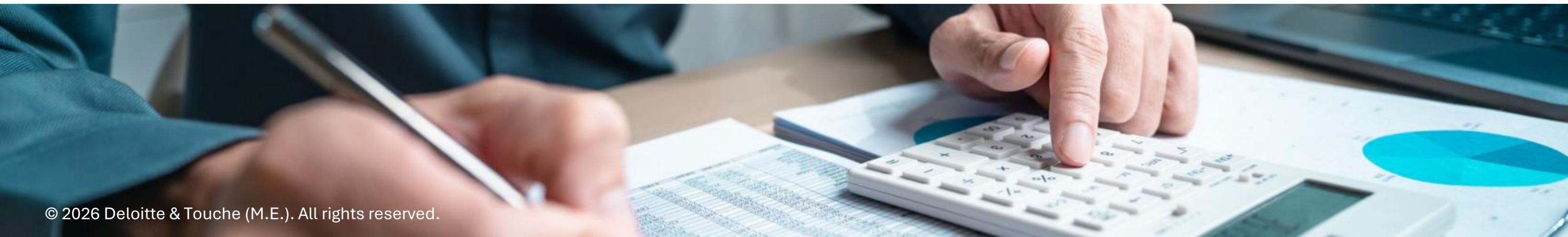
The compliance horizon: Near-term to structural implications

0–12 months · Acute phase Immediate response	1–3 years · Transition phase Restructuring & reallocation	3–7+ years · Structural phase New geopolitical normal
• Inter-company arrangements performance obligations suspended under force majeure –document contemporaneously. • CUP method unreliable for ME-origin goods with emergency repricing of commodity transactions. • Limited-risk entities absorbing extraordinary uncontracted losses. • Country risk premiums in financial arrangements require immediate upward adjustment. • Urgent economic hardship documentation akin to COVID-19 TP guidance required.	• Supply chain restructuring drives functional re-profiling of ME based entities. • APAs require renegotiation where critical assumptions are violated. • Tax authorities begin auditing 2025 and 2026 filings with ex-post economic data advantage. • Intra-group insurance and risk sharing arrangements fundamentally repriced. • TP disputes concentrate in energy, logistics and financial services.	• Permanent elevation in geopolitical comparability as a benchmarking criterion. • OECD guidance evolves to incorporate geopolitical risk in the comparability framework. • GCC nations emerge as critical nodes in restructured energy architecture, driving enhanced TP scrutiny. • Pillar Two interaction with geopolitical windfall profits creates new compliance complexity. • Digital PE risks multiply for remote operational models post-conflict.

What MNEs must do now: A strategic response framework

The compliance imperative extends well beyond building defense documentation. MNEs must treat the current environment as a fundamental inflection point for their TP operating models. The following priorities apply across all affected jurisdictions.

01 Conduct an emergency TP exposure audit	02 Contemporaneous economic documentation
• Map all related-party arrangements involving ME domiciled entities, transit routes, or commodities priced against Hormuz-linked benchmarks. • Identify which arrangements having force majeure provisions and whether they have been or should be invoked. • Quantify the divergence between contracted pricing and current market reality.	• Do not wait for year-end to document the economic rationale for pricing deviations. • Prepare memoranda, board papers, and economic analyses now, capturing decision-making at the time it occurred. • Tax authorities will apply a 20/20 hindsight lens in audit; contemporaneous records are the only effective counter.
03 Re-benchmark financial arrangements	**04 Review force majeure provisions**
• Reassess Intra-group loan rates, cash pool remuneration, and financial guarantees against current market conditions, and • Where the existing rates fall outside the recalibrated arm's length range, execute adjustments with proper documentation of the economic rationale.	• Analyze the contractual language in all intercompany agreements against the legal requirements for force majeure relief. • Distinguish between entities genuinely prevented from performing and those simply facing economic hardship.
05 Stress-test limited-risk entity profiles	**06 Engage tax authorities proactively**
• If ME based LRDs or contract manufacturers are absorbing losses inconsistent with their functional profiles, either restructure the commercial arrangement prospectively or document why the principal entity should compensate the limited-risk entity for extraordinary cost absorption under the arm's length standard.	• Where material pricing deviations are unavoidable, consider engaging ZATCA and other relevant tax authorities through APA programs, binding rulings, or informal pre-filing discussions. • KSA's APA framework provides a structured mechanism for obtaining pricing certainty. Use it for the most exposed and high value transaction categories.
07 Align Customs and TP values	**08 Reassess Supply Chain Operating Models**
• As ZATCA conducts joint audits with Saudi Customs, discrepancies between import declarations and TP documentation are a primary audit trigger. • In a disrupted environment where declared values and TP prices are under simultaneous pressure, alignment across filings is critical.	• In a scenario of conflict-driven restructuring, new sourcing routes, alternative transit corridors, and shifting of regional manufacturing hubs, ensure that the TP implications of functional and risk profile changes are documented and that any deemed disposal of functions, assets, or risks complies with Chapter IX Exit Charge principles under the OECD guidelines in relevant jurisdictions.



The Arm's Length Principle applies in all conditions

The situation within the region is not a TP problem that will be resolved when the immediate disruption subsides. The benchmarking contamination, functional re-profiling requirements, and intercompany agreement stress it has generated will persist through audit cycles unlikely to conclude before the 2030s. Tax authorities, armed with economic data that reveals the full trajectory of the crisis in hindsight, will apply it rigorously to taxpayers who failed to document on a contemporaneous basis.

The arm's length principle demands that MNEs conduct themselves as independent parties would. In periods of acute market stress, independent parties renegotiate, invoke force majeure provisions, reprice risk, and absorb losses proportionate to their economic exposure. The TP compliance imperative is not just to patch up disruption with last year's benchmarks, but it is to document what independent parties with equivalent risk profiles and functional exposures would have actually done.

For KSA based MNEs and their advisors, the confluence of ZATCA's growing enforcement sophistication, Vision 2030's transformative structural agenda, and the immediate economic shockwaves of the conflict creates a compliance environment that rewards disciplined preparation and penalizes inaction. Organizations that emerge from this period with their TP positions intact will be those that treated the crisis not as a compliance interruption, but as a definitive compliance test.

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