



REGULATIONS ON JOINT
STUDIES AND LICENSING FOR
COMMERCIAL EXPLORATION OF
PETROLEUM RESOURCES IN
SRI LANKA

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The Government and the Petroleum Development Authority of Sri Lanka recently sought to commence ‘upstream’ petroleum operations; that is, the commercial exploration and development of oil, gas, and petroleum resources. The Petroleum Development Authority [**‘the Authority’**] has already identified approximately 900 areas in and around Sri Lanka on which investors can carry out upstream petroleum operations.

In this context, on the 5th of January 2023, two sets of regulations were promulgated under the Petroleum Resources Act No. 21 of 2021 [**‘the Act’**], namely:¹

- i) the Petroleum Resources (Joint Study Agreements) Regulations No. 1 of 2023;
and
- ii) the Petroleum Resources (Service Provider Licensing) Regulations No. 2 of 2023.

The purpose of these regulations is to set out processes to streamline and manage future upstream petroleum operations in Sri Lanka.

PETROLEUM RESOURCES (JOINT STUDY AGREEMENTS) REGULATIONS

The Act prohibits persons from carrying out Joint Studies or petroleum operations in Sri Lanka unless such persons have entered into a Joint Study Agreement or a Petroleum Resources Agreement.²

A Joint Study, in terms of the Act, is a combined evaluation by the Government and one or more contractors of the hydrocarbon and energy potential of a defined area. The Act empowers the Authority to define and demarcate areas in which such Joint Studies can be conducted.³

¹ Gazette Extraordinary 2313/47 dated 5th January 2023, at http://documents.gov.lk/files/egz/2023/1/2313-47_E.pdf

² Section 15, the Act.

³ Section 4(1)(a), Petroleum Resources Act No. 21 of 2021 [**‘the Act’**].

The Petroleum Resources (Joint Study Agreements) Regulations seeks to govern and set out a competitive process by which investors can enter Joint Study Agreements with the Government to study, evaluate, and, consequently, extract any petroleum resources in a defined area.

Calling for Expressions of Interest and Proposals

Under the Regulations, the Authority is empowered to call for Expressions of Interest from any person interested in conducting a Joint Study in a defined area.⁴ Potential investors can submit their Expressions of Interest (together with a proposed work plan and timeframe) to the Director-General of the Authority,⁵ who is required to refer such Expressions of Interest to the Board of Directors of the Authority.⁶ The reference to the Board of Directors must be accompanied with a report prepared by the Director-General containing recommendations on the potential investor.⁷

The Board of Directors is required to evaluate the Expression of Interest and the report prepared by the Director-General.⁸ If the Expressions of Interest is found to be satisfactory, the Board of Directors may authorise the Director-General to publicly Request for Proposals for a Joint Study.⁹

Accordingly, Joint Study Proponents can submit their formal proposals to the Authority, which are required to be evaluated by the Board of Directors based on, among other things, the Joint Study Proponent's:

- i) experience,
- ii) reputation, and

⁴ Regulation 2(1), Petroleum Resources (Joint Study Agreements) Regulations No. 1 of 2023 [**Joint Study Regulations**].

⁵ Regulation 2(2), Joint Study Regulations.

⁶ Regulation 3, Joint Study Regulations.

⁷ Ibid.

⁸ Regulation 4(1), Joint Study Regulations.

⁹ Regulation 4(2), Joint Study Regulations.

- iii) financial capability to conduct a Joint Study.¹⁰

If two or more Joint Study Proponents have expressed interest in the same area, the Authority may request the Joint Study Proponents to mutually consolidate their respective proposals.¹¹ If the Joint Study Proponents are unwilling to consolidate their proposals, the Authority shall assign the area to the most suitable Joint Study Proponent based on the proposed scopes of work and other material factors.¹²

Once a proposal is evaluated as being suitable, the Authority may commence initial discussions with the relevant Joint Study Proponent to negotiate the terms and conditions of a proposed Joint Study Agreement.¹³

Petroleum Data

All petroleum data; that is, the maps, magnetic tapes, cores, cuttings, and production data of petroleum resources within Sri Lanka, is owned by the Government of Sri Lanka and managed by the Authority.¹⁴ Therefore, all potential investors and Joint Study Proponents are required to purchase the petroleum data relevant to a designated area from the Authority.¹⁵

Entering into a Joint Study Agreement

Once the Authority selects a suitable Joint Study Proponent, the Board of Directors of the Authority shall submit a proposed Joint Study Agreement (to be entered into with the Joint Study Proponent) to the Minister in charge of petroleum resources development.¹⁶ The Minister shall consider the terms and conditions therein and,

¹⁰ Regulation 5(1), Joint Study Regulations.

¹¹ Regulation 7(1), Joint Study Regulations.

¹² Regulation 7(2), Joint Study Regulations.

¹³ Regulation 5(2), Joint Study Regulations.

¹⁴ Section 13(1) and Section 13(2), the Act.

¹⁵ Regulation 6(1) and Regulation 6(2), Joint Study Regulations.

¹⁶ Regulation 8, Joint Study Regulations.

thereafter, enter into a Joint Study Agreement with the Joint Study Proponent, whose status will then change to a Joint Study Partner.¹⁷

Procedure upon Finding Hydrocarbon, Energy, or Mineral Potential

If the Joint Study Partner finds petroleum resources in commercially viable quantities in the defined area, the Joint Study Partner is mandatorily required to inform the Authority of the finding and request the Authority to commence exclusive negotiations on entering into a Petroleum Resource Agreement and obtaining a Development License, to exploit and share the hydrocarbon resources in the defined area.¹⁸ Such discussions must be concluded within one (01) year, unless mutually extended.¹⁹

The regulations specifically require the Authority and the Joint Study Partner to make all efforts to conclude such a Petroleum Resources Agreement during the operation of the Joint Study Agreement.²⁰ If, however, the Authority and the Joint Study Partner are unable to conclude a Petroleum Resources Agreement, the Authority may call for proposals for international Development Licensing to exploit the petroleum resources in the defined area.²¹

If the Joint Study Partner finds any other energy or mineral potential in the defined area, the Joint Study Partner is mandatorily required to inform the Authority of the finding.²² The Authority is then required to inform the relevant energy and mineral regulatory body of the finding, and such regulatory bodies are entitled to make an independent decision relating the finding of energy or mineral potential.²³

¹⁷ Section 19(2), the Act.

¹⁸ Regulation 10(a), Joint Study Regulations; Section 20(1)(a), the Act.

¹⁹ Regulation 10(a), Joint Study Regulation.

²⁰ Regulation 11(1), Joint Study Regulation.

²¹ Regulation 11(2), Joint Study Regulation.

²² Regulation 10(b), Joint Study Regulation.

²³ Ibid.

PETROLEUM RESOURCES (SERVICE PROVIDER LICENSING) REGULATIONS

In terms of the Act, a service provider cannot provide goods or services to a contractor involved in upstream petroleum operations unless it has obtained a license issued by the Authority.²⁴ In this context, the Petroleum Resources (Service Provider Licensing) Regulations sets out the procedure and process by which licenses are to be issued to service providers to the upstream petroleum operations.

Application for a License

A service provider who intends to provide services to the upstream petroleum operations must submit an application to the Director-General of the Authority.²⁵ The application must substantially be in the specimen Form in Schedule I of the Regulations.²⁶

The Director-General must consider if the application is substantially complete, and, thereafter, refer to the application to the Board of Directors of the Authority.²⁷ Upon being satisfied with the application, the Board of Directors may instruct the Director-General to issue a license to the service provider, subject to payment of the fees set out in Schedule II of the Regulations.²⁸ In the event the Board of Directors decides to reject the application for a license, the Authority is required to convey its decision, and the reasons therefor, to the applicant.²⁹

Term, Renewal, and Revocation of a License

Each license issued to a service provider will be operational for a period of one (01) one year and is renewable on an annual basis.³⁰ In order to renew a license, the service

²⁴ Section 23, the Act; Regulation 2, Petroleum Resources (Service Provider Licensing) Regulations No. 2 of 2023 [**'Service Provider Licensing Regulations'**].

²⁵ Regulation 3, Service Provider Licensing Regulations.

²⁶ Ibid.

²⁷ Regulation 4, Service Provider Licensing Regulations.

²⁸ Regulation 5, Service Provider Licensing Regulations.

²⁹ Ibid.

³⁰ Regulation 6, Service Provider Licensing Regulations.

provider is required to make a written request to the Authority within 30 days of the expiry of the current license.³¹

A license issued to a service provider can be revoked by the Authority if the service provider has violated any of the terms and conditions of the license.³²

³¹ Regulation 8, Service Provider Licensing Regulations.

³² Regulation 7, Service Provider Licensing Regulations.