

Sri Lanka Upstream Petroleum Local Content Guidelines

1. Introduction

The Petroleum Resources Act No. 26 of 2003 is the governing legislation for petroleum exploration and development in Sri Lanka. The Petroleum Resources Development Committee (PRDC) established under this Act is responsible for implementing the provisions of this Act, and the Petroleum Resources Development Secretariat (PRDS), headed by the Director General, is responsible for the administration and regulation of all exploration and production activities in Sri Lanka.

These Guidelines have been prepared by the Director General, PRDS for the purpose of adding extra value to the economy through capacity building of national human resources and technological advancement of the country through the participation of international Contractors/ Operators in upstream petroleum operations in Sri Lanka.

To achieve the above purpose, these Guidelines are mainly focused on developing a skilled workforce, procuring optimal supplies and services domestically, improving the livelihood of needy communities and enhancing Sri Lankan professional capabilities and competencies.

2. Objectives

As the regulatory and administrative authority of the Sri Lanka upstream petroleum industry, the PRDS aims to achieve the following three main objectives in improving Local Content:

- a) Ensure maximum **employment opportunities** for Sri Lankan nationals in all areas and during all phases of upstream petroleum operations.
- b) Improve **local capacity building** through education, training, knowledge and technology transfer aimed at increasing local competence levels to those expected by the international petroleum industry.
- c) Encourage local stake holders to invest in various activities of upstream petroleum operations and thereby increase the capabilities and competitiveness of the **domestic business community** in the sector.

3. Implementation

To implement the above objectives, the PRDS requires that every Contractor, Operator, Sub Contractor, alliance partner and other foreign entity involved in any oil and gas projects, operation and activity in Sri Lanka;

- a) Consider local content as an important element of their overall project development and management philosophy for project execution.
- b) Submit an annual Local Content Development (LCD) plan, for review and approval by the PRDS, outlining planned local goods and services sourcing, employment, education, training, and R&D opportunities earmarked for Sri Lankan nationals, and initiatives to uplift the livelihood of needy communities, not later than 6 months from the Effective Date of the relevant PRA or other agreement, and within thirty (30) days from the beginning of each subsequent financial year. The specific provisions to be followed are given in Sections 4.a to 4.c below.
- c) Submit a verifiable Local Content report outlining the progress in utilising Sri Lankan resources during the preceding Financial Year, within sixty (60) days of the end of each financial year, in a prescribed format with agreed metrics.

Every Investor participating in a licensing round is required, under specific terms of a Bid Inviting Document, to develop and submit a conceptual Local Content Development Plan based on the Guidelines as part of the bid package. At the evaluation of bid proposals, a weighting will be allocated to the proposed local content improvement and enhancement in line with evaluation parameters specified in the Bid Inviting Document, and the submitted plan shall form part of any agreement subsequently entered into.

4. Areas of Focus

a. Employment and Training

Every Contractor, Operator, Sub Contractor, alliance partner and other foreign entity involved in any oil and gas projects, operation and activity in Sri Lanka shall;

- i) Consider recruiting a minimum number of permanent Sri Lankan employees who may be deployed globally to gain experience in the industry, and thereby increase the number and level of technical and managerial Sri Lankan staff in-country over the exploration, development and production phases with a view to progressive replacement of expatriates.
- ii) Employ Sri Lankan nationals for Sri Lankan operations to the maximum extent possible, making allowance for additional training that may be required to build local competence to the level required to meet generally accepted international standards, and always encourage its Sub Contractors to act in the same manner.
- iii) Submit, for acceptance and approval by the PRDS, an Activity Specific Employment and Training Plan before the commencement of any petroleum

activity that involves a considerable number of personnel at any stage of the project, which shall include:

- a) Hands on Training/internship opportunities with the breakdown of the skills needed
 - b) Employment opportunities in support of clauses 4(a)(i) & 4(a)(ii)
 - c) A time frame for the opportunities listed in (a) and (b) above to enable members of the Sri Lankan work force to prepare themselves for such opportunities
 - d) Anticipated skill shortages in the Sri Lankan workforce
- iv) Make an annual contribution to the Petroleum Training Fund maintained by the PRDS, and contribute in kind where possible to the various training programmes that may be coordinated by the PRDS from time to time.

b. Knowledge and Technology Transfer

Every Contractor, Operator, Sub Contractor, alliance partner and other foreign entity involved in any oil and gas projects, operation and activity in Sri Lanka;

- i) Shall, where beneficial to national development, and at the request of the PRDS, negotiate in good faith Technical Assistance agreements with the PRDS, setting forth the terms by which the technical assistance partner may render technical assistance and make available industry proven tools and techniques of a proprietary nature for use in Sri Lanka by the PRDS. The issues to be negotiated in such technical assistance agreements may include, but not be limited to, licensing issues, royalty conditions, confidentiality restrictions, liabilities, costs and methods of payment.
- ii) May, if suitably qualified, carry out research programmes in acreage yet unallocated on a production sharing basis, within the framework of a Joint Study agreement. More details of such activities can be obtained from the PRDS.

c. Local Goods and Services

Every Contractor, Operator, Sub Contractor, alliance partner and other foreign entity involved in any oil and gas projects, operation and activity in Sri Lanka shall;

- i) Give preference to the purchase and use of goods manufactured, produced or supplied in Sri Lanka provided that such goods are offered on terms equal to or better than

imported goods with respect to timing of delivery, quality and quantity required, price and other terms;

- ii) Give preference to Sri Lankan services or service providers, if such services are available in Sri Lanka or can be obtained through Sri Lankan service providers, provided that such services are offered on terms equal to or better in respect of timing of delivery, quality and price compared to foreign service providers;
- iii) Give preference to foreign Sub Contractors who utilise Sri Lankan goods and services to the maximum extent possible, where direct Sri Lankan providers or suppliers are not available;
- iv) Not award contracts solely on the basis of lowest price. Where a Sri Lankan local service provider or company has the capacity to provide tendered goods or services, such service provider or company shall not be disqualified provided their price does not exceed the lowest bid price by more than ten percent (10%).