
LAW RELATING TO PRODUCTION AND COMMERCIALIZATION OF HYDROCARBON
PRODUCTS IN SRI LANKA: A COMPARATIVE STUDY

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ABSTRACT

This study examines the legal framework governing the production and commercialization of hydrocarbon products in Sri Lanka, with a comparative analysis of regulatory practices in India. The research aims to evaluate the effectiveness of existing legislation, including the Petroleum Resources Act and related institutional mechanisms, in facilitating sustainable exploration, production, and commercialization of hydrocarbon resources. Adopting a qualitative, doctrinal, and comparative legal methodology, the study analyses statutory provisions, policy frameworks, and institutional structures that regulate the hydrocarbon sector in Sri Lanka. The findings reveal that, despite the introduction of modern legislative reforms and regulatory bodies, Sri Lanka has not successfully transitioned into a hydrocarbon-producing nation. Key challenges include policy inconsistencies, weak implementation mechanisms, lack of a coherent national energy strategy, and delays in licensing and investment processes. In contrast, India's structured regulatory approach, particularly through policies such as the Hydrocarbon Exploration and Licensing Policy (HELP), demonstrates a more investor-friendly and operationally effective framework. The study further identifies significant legal and institutional gaps in Sri Lanka, particularly in areas of environmental governance, stakeholder engagement, and commercialization mechanisms. It argues that the existing framework, while comprehensive in design, lacks practical enforceability and strategic alignment with global energy trends. The paper concludes by proposing targeted legal and policy reforms, including strengthening regulatory institutions, improving transparency in licensing, and adopting adaptive governance models to enhance sectoral development. These findings contribute to the broader discourse on energy law and governance in emerging economies.

Keywords: Hydrocarbon Regulation, Legal Framework, Petroleum Law, Energy Governance, Sri Lanka

INTRODUCTION

The increasing global demand for energy, coupled with concerns over energy security and sustainability, has driven many developing countries to explore domestic hydrocarbon resources. Sri Lanka, which remains heavily dependent on imported fossil fuels, faces significant challenges in ensuring a stable, affordable, and sustainable energy supply (Asian Development Bank, 2019). Despite the identification of potential hydrocarbon reserves in offshore basins such as Mannar and Cauvery, the country has not yet transitioned into a hydrocarbon-producing nation (Rupasinghe and Hettiwatte, 2015).

The legal and regulatory framework governing hydrocarbon exploration, production, and commercialization plays a critical role in shaping the development of the sector. In Sri Lanka, key legislative instruments such as the Petroleum Resources Act No. 26 of 2003 and the Petroleum Resources Act No. 21 of 2021 establish the foundation for licensing, regulatory oversight, and institutional governance (Petroleum Resources Act, 2021). Regulatory bodies including the Petroleum Resources Development Secretariat (PRDS) and the Ceylon Petroleum Corporation (CPC) are tasked with managing upstream and downstream activities. However, despite these frameworks, the sector continues to experience significant challenges, including delays in licensing rounds, lack of coherent policy direction, and weak institutional coordination (Fernando, 2019).

In contrast, India has adopted a more structured and investor-oriented regulatory approach to hydrocarbon development. The introduction of the Hydrocarbon Exploration and Licensing Policy (HELP) in 2016 reflects a shift toward unified licensing, revenue-sharing mechanisms, and market-oriented reforms aimed at increasing efficiency and attracting investment (Government of India, 2018). This comparative difference highlights the importance of effective regulatory design and implementation in promoting sectoral growth and sustainability.

Beyond economic considerations, the hydrocarbon sector has broader implications for environmental protection and stakeholder engagement. The extraction and commercialization of hydrocarbon resources can lead to environmental degradation if not properly regulated, necessitating strong legal safeguards and enforcement mechanisms (Gunasekera, 2017). In Sri Lanka, concerns related to environmental governance, community

participation, and regulatory enforcement remain insufficiently addressed within the existing legal framework (Jayasinghe, 2016).

Against this background, this study aims to critically examine the legal framework governing the production and commercialization of hydrocarbon products in Sri Lanka and evaluate its effectiveness through a comparative analysis with India. The research seeks to identify key legal and institutional gaps, assess their impact on sectoral development, and propose recommendations for improving regulatory governance. In doing so, the study contributes to the broader discourse on energy law, regulatory reform, and sustainable resource management in emerging economies.

LITERATURE REVIEW

The exploration, production, and commercialization of hydrocarbon resources have been widely examined in the context of energy security, economic development, and regulatory governance. In Sri Lanka, scholarly attention has primarily focused on the country's untapped hydrocarbon potential, institutional arrangements, and evolving legal framework. Early studies highlight that Sri Lanka's offshore basins, particularly the Mannar and Cauvery basins, possess significant hydrocarbon prospects due to their geological continuity with resource-rich regions such as Mozambique (Gunasekera, 2017). The discovery of natural gas deposits in the Mannar Basin in 2011 further reinforced the potential for Sri Lanka to emerge as a hydrocarbon-producing nation (Rupasinghe and Hettiwatte, 2015). However, despite these developments, exploration and production activities remain at a preliminary stage.

A significant body of literature examines the legal and policy framework governing the hydrocarbon sector in Sri Lanka. The Petroleum Resources Act No. 26 of 2003 established the foundational legal regime for exploration and production, while subsequent reforms, including the Petroleum Resources Act No. 21 of 2021, aimed to strengthen regulatory oversight and institutional coordination (Petroleum Resources Act, 2021). The establishment of the Petroleum Resources Development Secretariat (PRDS) and the proposed Petroleum Development Authority reflect efforts to modernize governance structures. Nevertheless, studies indicate that these legal reforms have not translated into effective sectoral development, largely due to implementation gaps, policy inconsistencies, and lack of investor confidence (Fernando, 2019).

In addition to domestic regulatory challenges, the literature also emphasizes the role of institutional actors such as the Ceylon Petroleum Corporation (CPC) and the Lanka Indian Oil Corporation (LIOC) in the commercialization of petroleum products. While the liberalization of the sector in 2003 introduced competition, the market remains asymmetrical, with CPC maintaining a dominant position (Jayasinghe, 2016). This imbalance has implications for efficiency, pricing mechanisms, and private sector participation, thereby limiting the overall effectiveness of the commercialization framework.

Comparative studies provide valuable insights into alternative regulatory approaches. India's hydrocarbon sector, for instance, has undergone significant transformation through the introduction of the Hydrocarbon Exploration and Licensing Policy (HELP) in 2016. This policy introduced uniform licensing, revenue-sharing mechanisms, and greater marketing autonomy, thereby enhancing transparency and attracting investment (Government of India, 2018). The Indian model demonstrates the importance of regulatory clarity, policy stability, and institutional efficiency in promoting hydrocarbon exploration and production. In contrast, Sri Lanka's fragmented regulatory approach and delayed policy implementation have hindered similar progress.

Environmental and sustainability considerations also feature prominently in the literature. Hydrocarbon activities are associated with environmental risks, including air and water pollution, ecological disruption, and greenhouse gas emissions. Scholars argue that effective legal frameworks must incorporate strong environmental safeguards and stakeholder engagement mechanisms to ensure sustainable resource management (Gunasekera, 2017). In Sri Lanka, however, existing regulatory mechanisms have been criticized for insufficient enforcement and limited integration of environmental considerations into policy frameworks (Jayasinghe, 2016).

Despite the growing body of literature, a notable research gap remains in the comprehensive evaluation of Sri Lanka's hydrocarbon legal framework from a comparative perspective. While previous studies have examined individual aspects such as policy development, institutional arrangements, or environmental concerns, there is limited research that integrates these dimensions into a cohesive legal analysis. Furthermore, the effectiveness of recent legislative reforms, particularly the Petroleum Resources Act No. 21 of 2021, has not been adequately assessed in relation to international best practices.

This study seeks to address these gaps by providing a critical and comparative analysis of the legal framework governing hydrocarbon production and commercialization in Sri Lanka. By examining both domestic regulations and comparative insights from India, the research aims to contribute to a deeper understanding of regulatory challenges and inform future policy and legal reforms in the sector.

METHODOLOGY

This study adopts a qualitative research design to examine the legal framework governing the production and commercialization of hydrocarbon products in Sri Lanka. Given the legal and policy-oriented nature of the research, a **doctrinal legal research method** is employed as the primary approach. This method focuses on the systematic analysis of legal texts, including statutes, regulations, policy documents, and institutional frameworks, in order to evaluate the effectiveness and coherence of the existing legal regime.

Conceptual Framework

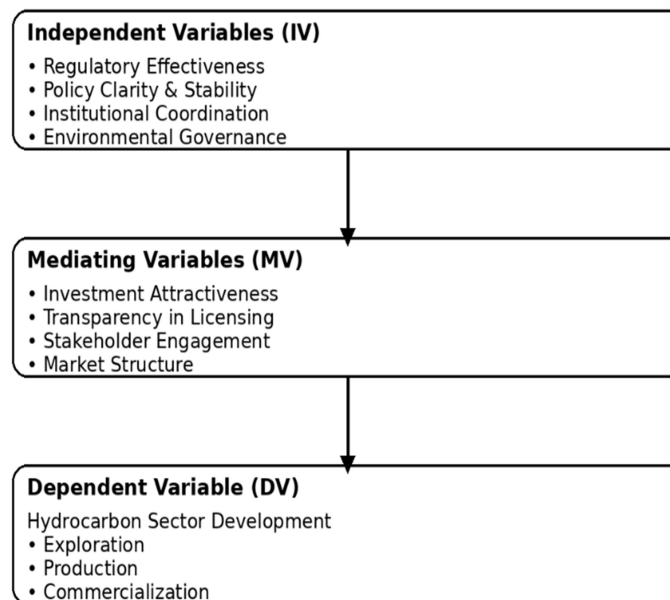


Figure 01: Conceptual Framework of Hydrocarbon Sector Regulation in Sri Lanka

In addition to doctrinal analysis, the study incorporates a **comparative legal approach**, using India as a reference jurisdiction. India is selected due to its relatively advanced and structured hydrocarbon regulatory framework, particularly following the introduction of the Hydrocarbon Exploration and Licensing Policy (HELP). The comparative method enables the identification of differences in regulatory design, implementation mechanisms, and policy outcomes between the two jurisdictions, thereby providing insights into best practices and potential areas for reform in Sri Lanka.

The research is grounded in an **interpretivist epistemology** and a **constructivist ontological perspective**, recognizing that legal frameworks are socially constructed and subject to varying interpretations depending on institutional, political, and economic contexts (Bryman and Bell, 2007; Saunders et al., 2012). This approach allows for a nuanced understanding of how laws operate in practice, beyond their formal provisions.

DATA COLLECTION

The study relies primarily on **secondary data sources**, including:

- National legislation such as the Petroleum Resources Act No. 26 of 2003 and the Petroleum Resources Act No. 21 of 2021
- Government policy documents and official reports
- Academic literature, journal articles, and prior research studies
- Reports from international organizations such as the Asian Development Bank

These sources provide a comprehensive basis for analyzing both the legal framework and its practical implications.

Data Analysis

Data are analyzed using **thematic and comparative analysis techniques**. Legal provisions and policy frameworks are systematically examined to identify recurring themes, including regulatory effectiveness, institutional coordination, environmental governance, and commercialization mechanisms. The comparative analysis with India focuses on key dimensions such as licensing regimes, investment frameworks, and regulatory transparency.

Limitations

This study is subject to certain limitations. First, the reliance on secondary data may restrict access to real-time industry insights and stakeholder perspectives. Second, the comparative analysis is limited to India and does not include other jurisdictions that may offer additional insights. Despite these limitations, the study provides a robust legal and policy analysis sufficient to address the research objectives.

Ethical Considerations

As the research is based entirely on publicly available secondary data, it does not involve human participants and therefore does not raise significant ethical concerns. However, all sources have been properly acknowledged to ensure academic integrity and avoid plagiarism.

DATA ANALYSIS

The analysis of data in this study is conducted using a **thematic and comparative legal analysis approach**, consistent with the doctrinal and qualitative nature of the research. The primary focus is on examining legal texts, policy documents, and institutional frameworks governing the hydrocarbon sector in Sri Lanka, and comparing them with the regulatory framework in India.

Thematic Analysis

Thematic analysis is employed to identify and interpret key patterns within the legal and policy framework. The analysis is organized around four central themes derived from the research objectives:

1. Regulatory Effectiveness

The study evaluates the effectiveness of existing legal instruments, including the Petroleum Resources Act No. 26 of 2003 and the Petroleum Resources Act No. 21 of 2021, in facilitating hydrocarbon exploration and production. The analysis focuses on licensing procedures, regulatory clarity, and institutional roles. Findings indicate that, although the legal framework is comprehensive in structure, its implementation remains weak, resulting in delays in exploration activities and limited sectoral progress.

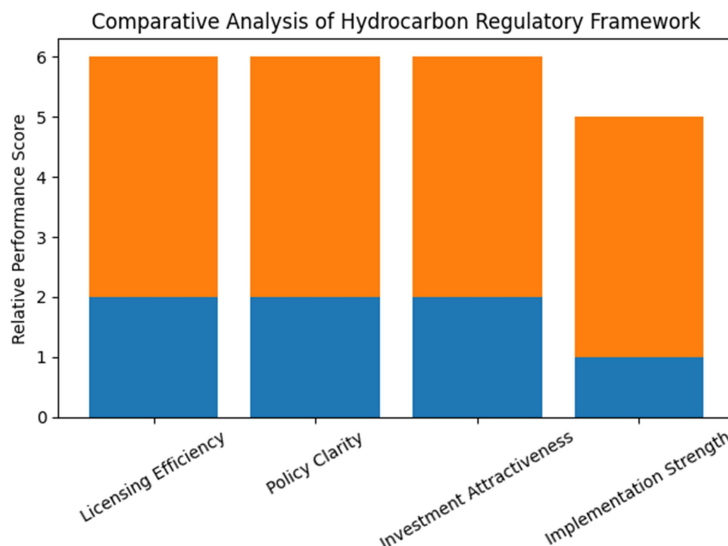


Figure 2: Comparative Analysis of Hydrocarbon Regulatory Framework (Sri Lanka vs India)

2. Institutional Coordination and Governance

This theme examines the roles and interactions of key institutions such as the Petroleum Resources Development Secretariat (PRDS), the Ceylon Petroleum Corporation (CPC), and relevant government ministries. The analysis reveals a lack of effective coordination and overlapping responsibilities, which contribute to inefficiencies in decision-making and regulatory enforcement.

3. Commercialization and Market Structure

The study analyzes the commercialization framework of hydrocarbon products, focusing on market dynamics and the role of major stakeholders such as CPC and Lanka Indian Oil Corporation (LIOC). The findings highlight an asymmetrical market structure, where CPC maintains a dominant position, limiting competition and reducing efficiency in the downstream sector.

4. Environmental and Stakeholder Considerations

This theme explores the extent to which environmental protection and stakeholder engagement are integrated into the legal framework. The analysis identifies gaps in environmental governance and limited mechanisms for community participation, raising concerns about the sustainability of hydrocarbon development.

COMPARATIVE ANALYSIS

A comparative analysis is conducted between Sri Lanka and India to assess differences in regulatory design and implementation. The Indian framework, particularly under the Hydrocarbon Exploration and Licensing Policy (HELP), demonstrates greater regulatory clarity, investor-friendly policies, and efficient licensing mechanisms. In contrast, Sri Lanka’s framework is characterized by policy delays, lack of transparency, and weak institutional capacity.

The comparison highlights that effective hydrocarbon governance requires not only comprehensive legislation but also strong implementation mechanisms, policy consistency, and institutional efficiency. India’s experience provides practical insights into how regulatory reforms can enhance investment and operational outcomes in the hydrocarbon sector.

Table 01: Legal Framework Comparison

Aspect	Sri Lanka	India
Key Law	Petroleum Resources Act (2003, 2021)	HELP Policy (2016)
Licensing	Delayed, unclear	Open acreage, transparent
Investment Climate	Weak	Investor-friendly
Implementation	Poor	Strong

Synthesis of Findings

The combined thematic and comparative analysis reveals that Sri Lanka’s hydrocarbon sector is constrained not by the absence of legal provisions, but by gaps in implementation, coordination, and strategic policy direction. While recent legislative reforms aim to strengthen the regulatory framework, their impact remains limited due to structural and governance-related challenges.

Overall, the data analysis underscores the need for a more coherent, transparent, and effectively enforced legal framework to support the sustainable development of hydrocarbon resources in Sri Lanka.

Table 02: Institutional Structure Table

Institution	Role	Issues
PRDS	Regulator	Weak coordination
CPC	Market control	Monopoly dominance
LIOC	Private participation	Limited influence

Table 03: Legal Gaps

Area	Existing Law	Gap Identified
Licensing	Act 2003/2021	Delays
Environment	General provisions	Weak enforcement
Commercialization	CPC dominance	Low competition

CONCLUSION

This study examined the legal framework governing the production and commercialization of hydrocarbon products in Sri Lanka, with a comparative analysis of the regulatory approach adopted in India. The findings reveal that Sri Lanka possesses a relatively comprehensive legal and institutional framework, primarily established through the Petroleum Resources Act and related regulatory mechanisms. However, despite these legislative developments, the country has not successfully transitioned into a hydrocarbon-producing nation.

The analysis indicates that the primary challenge does not lie in the absence of legal provisions, but in the weaknesses associated with their implementation. Key issues identified include policy inconsistencies, delays in licensing processes, limited institutional coordination, and a lack of transparency in regulatory practices. Furthermore, the commercialization framework remains constrained by an asymmetrical market structure dominated by state-owned entities, which limits competition and reduces efficiency.

The comparative assessment with India highlights the importance of regulatory clarity, policy stability, and investor-friendly mechanisms in promoting hydrocarbon sector development. India's adoption of structured policies such as the Hydrocarbon Exploration and Licensing Policy (HELP) demonstrates how effective governance and streamlined regulatory processes can enhance investment and operational outcomes. In contrast, Sri Lanka's fragmented and slow-moving regulatory environment continues to hinder progress in exploration and production activities.

In addition, the study identifies significant gaps in environmental governance and stakeholder engagement, raising concerns about the sustainability of future hydrocarbon development. The absence of strong enforcement mechanisms and participatory frameworks further limits the effectiveness of the existing legal system.

Overall, the study concludes that while Sri Lanka has established a foundational legal framework for hydrocarbon regulation, its effectiveness is undermined by structural, institutional, and policy-related challenges. To achieve meaningful progress, it is essential to strengthen implementation mechanisms, enhance regulatory transparency, improve institutional coordination, and adopt more adaptive and investor-oriented policy approaches. Addressing these issues will be critical for unlocking the country's hydrocarbon potential and ensuring sustainable sectoral development.

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