

The future for railway finance How the Luxembourg Rail Protocol will transform the rail sector

Industry Seminar London, 1st March 2016



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Overview of the Protocol

Setting the Scene – the Berger Report

- EUR 13.3 bn spent on new rolling stock p.a.
- 370 procurement projects
- 88% of rolling stock procurement in Europe state financed or underwritten
- UK key exception (46% private finance) and, together with Germany, 81% of the private finance market



The different private finance options

- Equity
- Debt (secured or unsecured)
- leasing (operating or finance)
- Conditional sales



The different private finance options

- Conventional sources of private funding:
 - Manufacturer credit
 - Banks
 - Lessors
- Not so conventional sources:
 - Capital markets
 - Private equity
 - Pension funds and Institutions

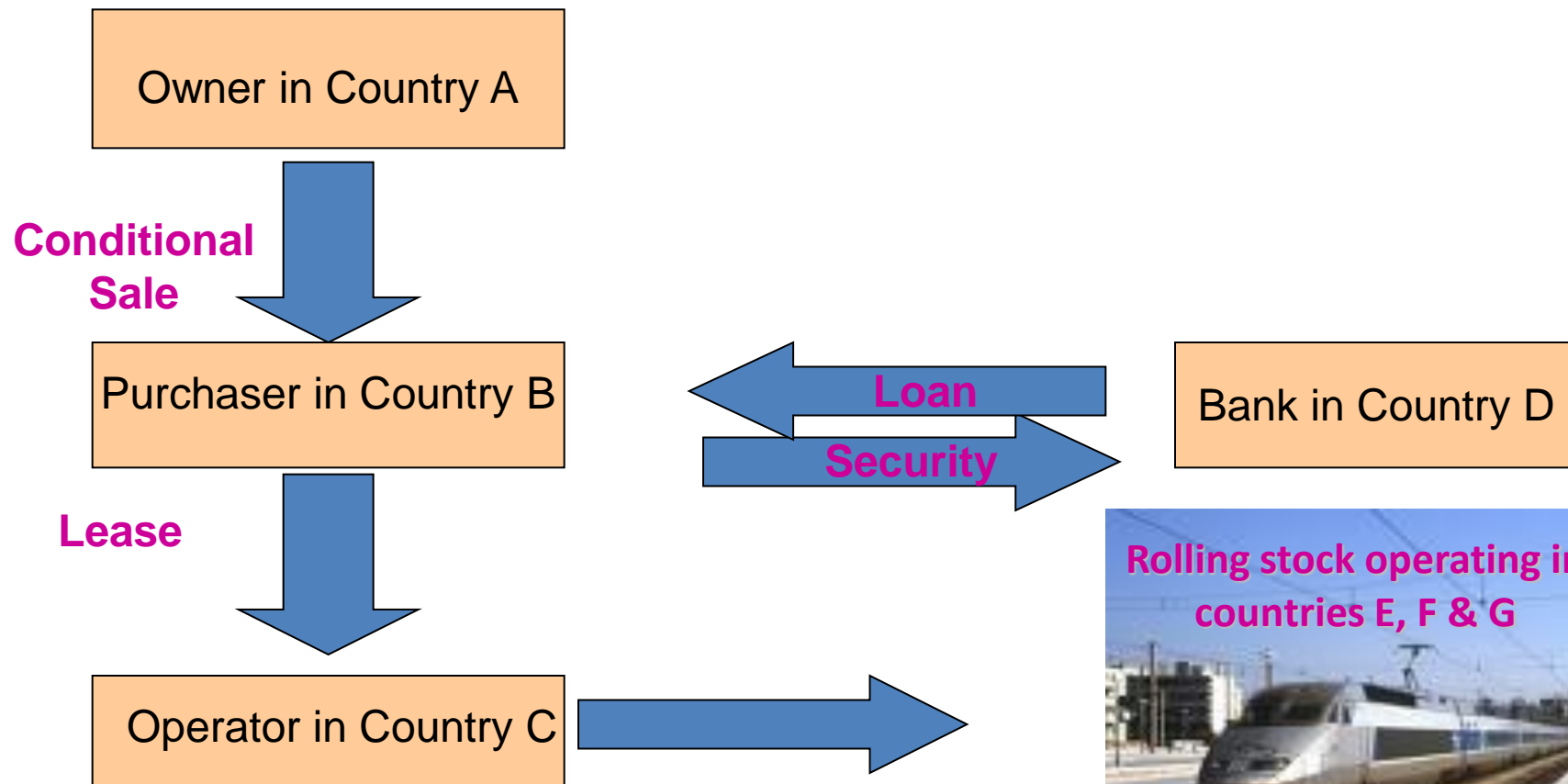


Creditor Issues

- No national title or security registry
- Identifiers unstable
- Limited legal infrastructure domestically and internationally
- Repossession for creditors on debtor default or insolvency
- Public Policy and Public Interest
- Bank's capital requirements and Basel II and III
- Limited tracking of assets
- Cross border risks



Financing railway rolling stock today



Cape Town October/November 2001

participants from 58 States and 11 international organisations at the Diplomatic Conference

- adopted the Cape Town Convention on International Interests in Mobile Equipment
- and the Aviation Protocol thereto

THE LUXEMBOURG PROTOCOL TO THE CAPE TOWN CONVENTION ON INTERNATIONAL INTERESTS IN MOBILE EQUIPMENT

Agreed in Luxembourg 2007

**Participants from 42 States and 12 international
organisations at the Diplomatic Conference**



What does the Luxembourg Rail Protocol do?

The Protocol creates

- ✓ a new type of global security interest for railway rolling stock, internationally recognised with established priorities
- ✓ Registrable (voluntary) and searchable in a public registry, 24/7
- ✓ new uniform system for unique and permanent identification of assets (URVIS)





To what does the Luxembourg Protocol apply?

The Protocol applies:

- ✓ To all rolling stock (broadly defined):
“..vehicles movable on a fixed railway track or directly on, above or below a guideway” so covers
 - Inter-urban and urban rolling stock
 - Specialist boring and other rail mounted equipment
 - Metro trains and trams
 - People movers/shuttles at airports
 - Cranes and gantries at ports
 - Cable cars





When does the Luxembourg Protocol apply?

The Protocol applies:

- ✓ To secure
 - Lessor under a lease
 - Creditor under a secured loan and
 - Vendor's rights under a conditional sale
(where title is retained)





When does the Luxembourg Protocol apply?

- Protocol must be in force
- And in force in the jurisdiction where the debtor is principally located
- When an International Interest is created in the rolling stock
- Which must be identified in accordance with the Protocol with a unique number





Luxembourg Benefits

The Protocol :

- ✓ Creates a new legal framework, even for financing of domestic rail transactions
- ✓ Eliminates complex documentation and structures
- ✓ Resolves cross border security and conflict of laws issues
- ✓ Facilitates operating and finance leasing and other private sector finance
- ✓ Makes the industry more competitive against road and aircraft transportation
- ✓ Lowers ECA premiums (probably)
- ✓ Other economic Benefits





Other Luxembourg Benefits

- Global system
- Proven
 - Aircraft Protocol operating in 62 jurisdictions
 - International registry for aircraft running since 2006 (and now in UK)
- Special debtor insolvency rules
- Public service recognition and provisions
- Party autonomy on contracts



The Status of the Luxembourg Protocol

- Adopted 2007 (not yet in force)
- Appointment of Registrar December 2014
- Ratified by EU and Luxembourg
- Signed by Italy, Germany, Switzerland, Gabon and UK
- Other EU and non-European countries now actively working on ratifications
- Secretariat authorisation





Implementation Issues

- The Problems of Contiguity
 - Geographic
 - Common systems
- Insolvency and the EU
- URVIS
- Pre-existing interests
- “Marketing”
- Regulations – current and future
- Procedures
- Charges
- Ancillary Services



The Luxembourg Rail Protocol

- A new strategic tool for the public and private sector
- Providing a new pragmatic global regulatory framework which will
 - ✓ Facilitate more and cheaper private sector investment in the railways
 - ✓ Lower barriers to entry to private operators
 - ✓ Stimulate a more competitive and dynamic industry
 - ✓ Support cross border transactions and operations
 - ✓ Open more business opportunities for British investors outside of the UK





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www.railworkinggroup.org