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## Identifying the real cost of the Luxembourg Rail Protocol for Rolling Stock Manufacturers

The Luxembourg Protocol to the Cape Town Convention is a new global legal system for the recognition and prioritisation of security interests held by creditors lending on or leasing all types of railway rolling stock (including passenger and freight locomotives and wagons, metro and light rail trains, trams and cable cars). This security will be registered in a new international registry, in Luxembourg, which is searchable through the internet by the public 24/7. The Protocol will enter into force in contracting states from **8<sup>th</sup> March 2024**.

The Luxembourg Protocol will facilitate banks and other financiers providing cheaper finance to support much needed new rolling stock procurement globally without state guarantees or support. In some parts of the world, it will open up credit for operators where the private sector currently will not lend or lease rolling stock even on a state credit, thereby unlocking new markets. In each case, it will lower the barriers to entry for new operators and lead to a more competitive and successful rail industry worldwide – bringing new business opportunities as well as important social, environmental, developmental and economic advantages.

The Protocol introduces a new unique global identification system, URVIS<sup>1</sup>, for all rolling stock. This is unavoidable because there is no consistent global system currently for *uniquely* identifying rolling stock and the creditor's security depends on such identification both for enforcement of its rights as well as effecting their public registration. The URVIS number will however also give to lenders, lessors, manufacturers, operators, insurers, and maintainers a new tool to track the location and status of the equipment. The number will be a unique 16 digit number (including one check digit) issued by the international registry. Once issued, it will never be used for any other asset.

1. The international registry will charge for an URVIS number it issues to cover its administrative costs. Manufacturers may wish to pre-equip new rolling stock with the URVIS number as an additional service to customers but this is not obligatory. The schedule of fees have not yet been finalized but our best guess is that the costs will be about 15 Euros per issued number.
2. The number will need to be fixed to the rolling stock in a manner approved by the registrar – to ensure that the marking is permanent. The 2023 UN Model Rules for the Permanent Identification of Railway Rolling Stock sets a **minimum** standard of

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<sup>1</sup> Unique Rail Vehicle Identification System, set out in the regulations applicable to the international registry



permanent marking by way of two plates on the side of the rolling stock - as such the costs per unit will be minimal. If the number is incorporated into more sophisticated equipment tagging systems using RFID chips or bar codes, the incremental cost will be insignificant.

3. Applying for a number is another process that takes administrative time – but this should be minimal, especially as the registrar intends to make them available to some authorities supervising vehicle immatriculation so that they can be issued by them at the same time as a “one-stop shop”. Moreover, manufacturers can purchase a block of numbers and allocate them to rolling stock as they come off the production line.
4. Manufacturers may wish to build the URVIS number into their recording systems. This could require adaptation of existing software. A small one-off cost and in fact, since the number may be obtained before manufacturing is complete, all manufacturers could use the URVIS number as their serial numbers without any risk of overlap with other manufacturers – especially useful in systems’ integration if manufacturers later merge or share production assignments.

In each case the costs will be nominal (assuming they are not passed to the customer) but the advantages the Protocol brings to manufacturers will be significant:

- It will free customers, especially state operators, to order rolling stock when it’s needed irrespective of government debt and budgetary constraints
- The new security and registration system, based on the URVIS number, will reduce the cost of private debt for its customers: on a conservative estimate the lower cost of debt will translate into an average effective discount of 2% on the cost of the rolling stock
- By underwriting operating leases, the Protocol will create an economic driver towards standardisation of railway equipment, allowing manufacturers to be more efficient in their production process and achieve economies of scale
- The URVIS number will expand potential markets by supporting the regulation of cross border interoperability of locomotives and wagons, including variable gauge rolling stock, and will make it easy for manufacturers to track their production throughout its operational lifetime, wherever the rolling stock is being used in the world, and to offer maintenance and overhauls based on actual usage, leading to significant cost savings
- It will open the way for Export Credit Agencies to provide more support manufacturers by reducing their risk premiums when guaranteeing customer obligations by offering the “Cape Town Discount” (as is already the case for aircraft when the aircraft protocol to the Cape Town Convention applies)

**The actual costs of the Luxembourg Protocol for manufacturers will be minimal; the opportunities for incremental business will be tremendous, resulting in a clear net benefit.**