

Practical workshop on the implementation of the Luxembourg Rail Protocol

Why it will make a difference

Madrid 27th February 2024



RAIL WORKING GROUP

THE 2001 CAPE TOWN CONVENTION
ON INTERNATIONAL INTERESTS IN MOBILE EQUIPMENT



- ❑ Formed in 1996 at the request of UNIDROIT, the International Institute for the Unification of Private Law (intergovernmental organisation based in Rome)
- ❑ Not-for-profit global industry group based in Switzerland
- ❑ Dedicated to the adoption of the Luxembourg Rail Protocol to the Cape Town Convention

RAIL WORKING GROUP



- All officers and members work for free
- Over 80 direct members and many hundreds via industry associations, linking up various industry stakeholders
- Over 20 country or region contact groups
- European steering group based in Brussels
- Works with, and supports, governments, the European Commission, UN Agencies and the African Union

Luxembourg Rail Protocol to the Cape Town Convention

- ❑ An international treaty that will make it easier and cheaper for the private sector to finance railway rolling stock
- ❑ Creates a new **global** system of rights and priorities for creditors securing finance on rolling stock
- ❑ Covers 3 types of security interests:
 - collateral for secured credit
 - leases
 - conditional sales

Luxembourg Rail Protocol to the Cape Town Convention

- Secures creditors on debtor default or insolvency
- Applicable when the debtor is in a contracting state
- Introduces an international registry for security interests and a new global unique and permanent identification system for rolling stock (URVIS)

Luxembourg Rail Protocol to the Cape Town Convention

- Applies the Cape Town Convention to all railway rolling stock



Luxembourg Rail Protocol to the Cape Town Convention

- Two conditions for entry into force in contracting states:
 - 4 ratifications
 - Certification by OTIF that the International Registry is ready to operate

Luxembourg Rail Protocol to the Cape Town Convention

- ❑ Contracting states so far are Luxembourg, Sweden, **Spain** and Gabon (plus the European Union in respect of its competences)
- ❑ Enters into force in contracting states on **8th March 2024** but South Africa and Paraguay about to ratify
- ❑ France, Germany, Italy, UK, Switzerland and Mozambique have signed the Protocol, are working on ratification, and others are following

International Registry

- The first global public registry dealing with security interests in railway rolling stock
- Based in Luxembourg, run by the ISC group and operating in the Cloud 24/7
- Website will carry key information
- Operates under Regulations and Procedures now being finalised by the Preparatory Commission

International Registry

- Oversight by Supervisory Authority – intergovernmental agency comprising the contracting states – which comes into operation the day the Protocol enters into force
- Security interests and certain other transactions may be registered and inspected at the Registry
- Registrations may only be made by authorised users acting for a transacting party
- Secured MFA access

International Registry

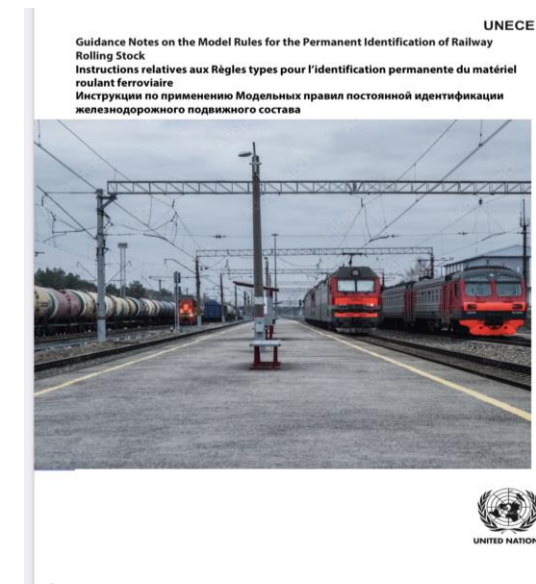
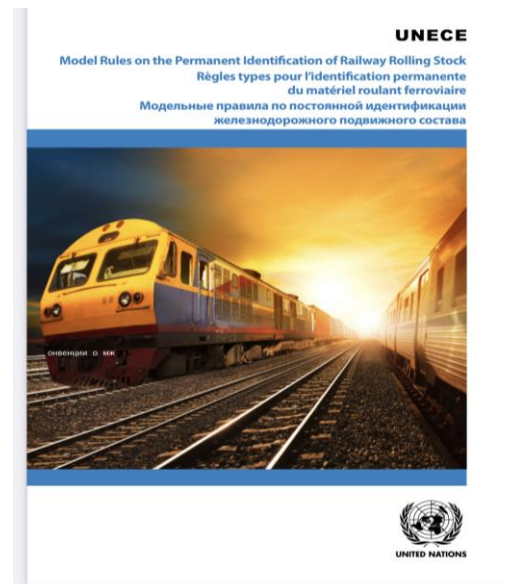
- Where the debtor is Spanish an Authorised Entry Code will be required for registrations from the *Registro de Bienes Muebles*
- Registration usually needs debtor consent
- Searches open to any person (“guest user”)
- Costs

URVIS and the Luxembourg Rail Protocol

- Rolling stock must be uniquely identifiable to register a security interest in the international registry in Luxembourg
- URVIS is the first global unique and permanent identification system for rolling stock
- 16-digit number (including a check digit) allocated by the Registrar in Luxembourg that will never be re-used
- Affixed permanently to rolling stock by the manufacturer, debtor or keeper

UN Model Rules on the Permanent Identification of Railway Rolling Stock

- 2023: the Inland Transport Committee of the United Nations Economic Commission for Europe adopts *Model Rules on the Permanent Identification of Railway Rolling Stock*



UN Model Rules on the Permanent Identification of Railway Rolling Stock

- New global voluntary minimum standard and responsibilities for permanently attaching an URVIS number to rolling stock
- Separate guidance notes
- Revision system

UN Model Rules on the Permanent Identification of Railway Rolling Stock

- Keepers of the rolling stock will need to undertake to abide by these minimum rules and register the undertaking at the International Registry – which will be published on its website
- Compliance with Model Rules will be a precondition to registration of a security interest
- Transition rules for rolling stock already in use

UN Model Rules on the Permanent Identification of Railway Rolling Stock



Luxembourg Rail Protocol Opportunities

- ❑ Massive expansion of rolling stock requirements around the world as
 - Railways are essential for sustainable development
 - Roads crumbling from increased trucking
 - Road accidents are a huge hidden cost for society
 - Cities are strangled by congestion and pollution
 - Rail is fundamentally more efficient (1 train can transport the freight carried by 50 trucks)
 - The private sector can finance procurement as long as the Protocol is in place

Luxembourg Rail Protocol Opportunities

- ❑ Technology is opening up new opportunities
 - Hybrid, cleaner diesel and hydrogen/fuel cell locomotives
 - Artificial Intelligence
 - Variable gauge rolling stock
 - DAC
 - Convoying and driverless trains
 - Supercapacitor trams
 - Quieter wagons

- ❑ This needs €billions of investment

Luxembourg Rail Protocol Benefits

- ❑ Macro and Micro Economic Benefits

- ❑ Delivers cheaper private finance for rolling stock through
 - **Lowering risks and capital costs** for banks and lessors
 - **Encourages** new sources of investment
 - **A common system** supporting cross border operations
 - **URVIS** facilitating real time tracking of use and location of rolling stock and predictive maintenance programmes
 - **Reducing** export credit premiums
 - **Simpler** documentation and structures
 - **Underwriting** operating leasing

Luxembourg Rail Protocol Benefits

- Easier for operators to procure rolling stock
- Customers no longer dependent on state funding
- Rail projects cheaper and more financially sustainable
- Oxera report (2019) estimates benefits of €336 m for Spain alone

Luxembourg Rail Protocol Benefits

THE 2001 CAPE TOWN CONVENTION
ON INTERNATIONAL INTERESTS IN MOBILE EQUIPMENT



- ❑ Operating leasing creating an economic dynamic for standardised equipment because of higher residual values leading to
 - Lower rents
 - Removal of barriers to entry = a more competitive sector
 - Economies of scale in manufacturing costs
 - More sales for manufacturers

URVIS Benefits

- ❑ Complementary to immatriculation – admission to rail system
- ❑ Will support regional regulatory co-operation and interoperability systems
- ❑ Defence against fraud for rolling stock purchasers and creditors

URVIS Benefits

- ❑ One system applicable worldwide on all rail assets
- ❑ Key element of AI/autonomous operation/DAC
- ❑ Real-time tracking of condition and location of assets (and potentially track conditions); domestically and cross border
- ❑ Makes lifetime asset management, including predictive maintenance, and costs much easier for operators, manufacturers and financiers

Things to consider

- Pressing governments to adopt
- Obtaining URVIS numbers and marking the rolling stock when they become available
- Positioning debtors to obtain the benefit of the Protocol
- Registering pre-existing interests and R-NCRIs

Things to consider

- User registrations
- Debtor undertakings to abide by the UN Model Rules
- Contract clauses
- Registering new security interests at the international registry once the Protocol applies (and even if not?)

Conclusion

- ❑ The Luxembourg Rail Protocol is a new global treaty that will support more and cheaper private finance of all rolling stock
- ❑ Security interests registrable and searchable 24/7 through the internet at a new International Registry
- ❑ Introduces URVIS – global unique permanent identifier for all rolling stock – and UN Model Rules on permanent marking
- ❑ URVIS identifiers then bring other advantages including real time monitoring and management of rolling stock

Conclusion

- ❑ Cheaper finance from simpler structures and documentation, lower risk, more finance and lower export premiums
- ❑ Will underwrite secured private finance and operating leasing so lower the barriers to entry for competitors, resulting in more sales in existing and developing markets and facilitating a more dynamic rail sector
- ❑ Will be in force in contracting states, including Spain, from **8th March 2024**
- ❑ **Are you ready?**

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