

Introduction to the Luxembourg Rail Protocol

Advantages and Opportunities



Rail Working Group

Securing the Future for the World's Railways

Introduction

The Rail Working Group

- Formed in 1996 at the request of UNIDROIT
- Not for profit global industry group based in Switzerland
- More than 70 direct members and hundreds via industry associations
- Linking up the various stakeholders in the industry
- Dedicated to the adoption of the Luxembourg Protocol



Setting the Scene

Railways in the 21st Century

- Long history of global (relative) decline
- Cross border operation essential to serve global markets
- Significant underinvestment worldwide both in infrastructure and rolling stock



Setting the Scene

Railways in the 21st Century

- Transportation mode of preference for policy makers for good economic, environmental, social and public policy reasons
- New interest in high-speed inter urban links and municipal light rail



Setting the Scene

Railways in the 21st Century

- Major modal shift required from road to rail
- Governments need resources for new rail infrastructure
- More entrepreneurs needed for passenger transport



Setting the Scene

Railways in the 21st Century

- More private operators mean more private capital needed
- More credit support required
- Funding rates matter if competition is to be encouraged
- Public sector needs to offload risks



Financing Railway Rolling Stock

Public finance

- Equity, state loans and grants, aid

Public Export Finance

- ECA, state or para-statal loans

Private investment

- Private equity, secured credit, leasing, BOT, etc



Financing Railway Rolling Stock

Current constraints

- Cost of credit
- Funder security/collateral
- Creditor especially exposed on cross border financing or operations



Problems of bringing in private capital

No national title or security registry

Identifiers unstable (from a creditor's perspective)

No comparable running number for other rolling stock (e.g. metros)

Limited legal infrastructure domestically and internationally

Repossession issues for creditors on debtor default or insolvency

Public Policy and Public Interest

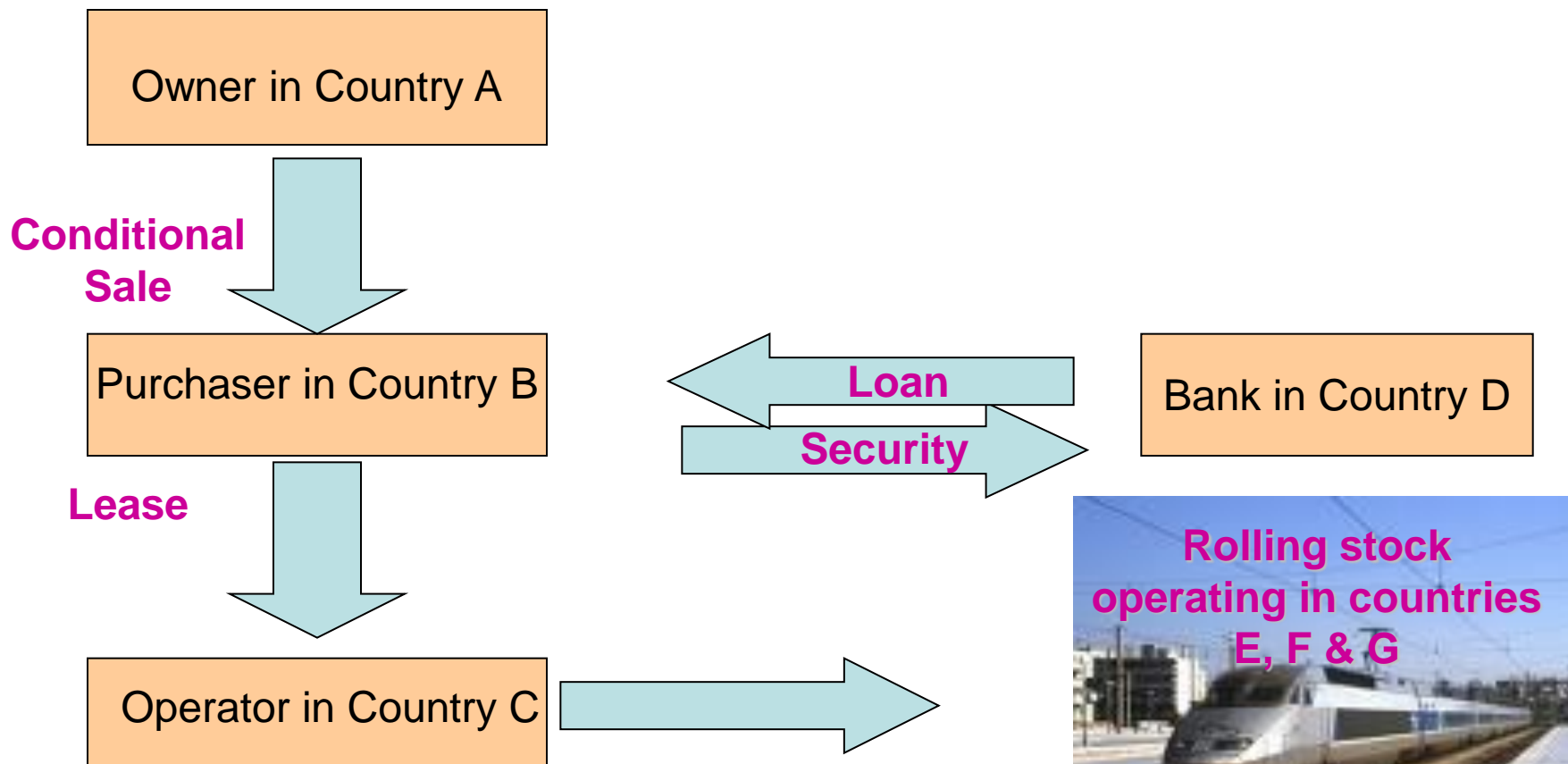
Bank's capital requirements and Basel II and III

Limited commercial 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



Cape Town Convention

Aircraft Protocol operating in over 60 jurisdictions (including US, Canada and Mexico)

International registry for aircraft running in Dublin since 2006

Over 600,000 registrations to date - estimated value of over half a trillion USD

Registrar – Special purpose company established by SITA

Aviation Working Group: “Cape Town” will save the air transport industry \$161 Billion 2009 - 2030



Luxembourg 2007

participants from 42 States and 12 international organisations at the Diplomatic Conference



The Luxembourg Protocol Protecting creditor rights

**The
Protocol
creates**

- A new type of global security interest (the “International Interest”) for railway rolling stock, internationally recognised with established priorities
- Security registrable (voluntary) and searchable 24/7 in a public registry, in Luxembourg, through the internet
- Relevant for domestic and international rolling stock finance
- A common system for enforcing creditor rights on debtor default or insolvency



What does the Luxembourg Protocol apply to?

**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
secures**

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



Unique Vehicle Identification?

Rolling stock must be uniquely identifiable for the Protocol to apply

Unique Vehicle Rail Identification System (URVIS) will be established by registry regulations

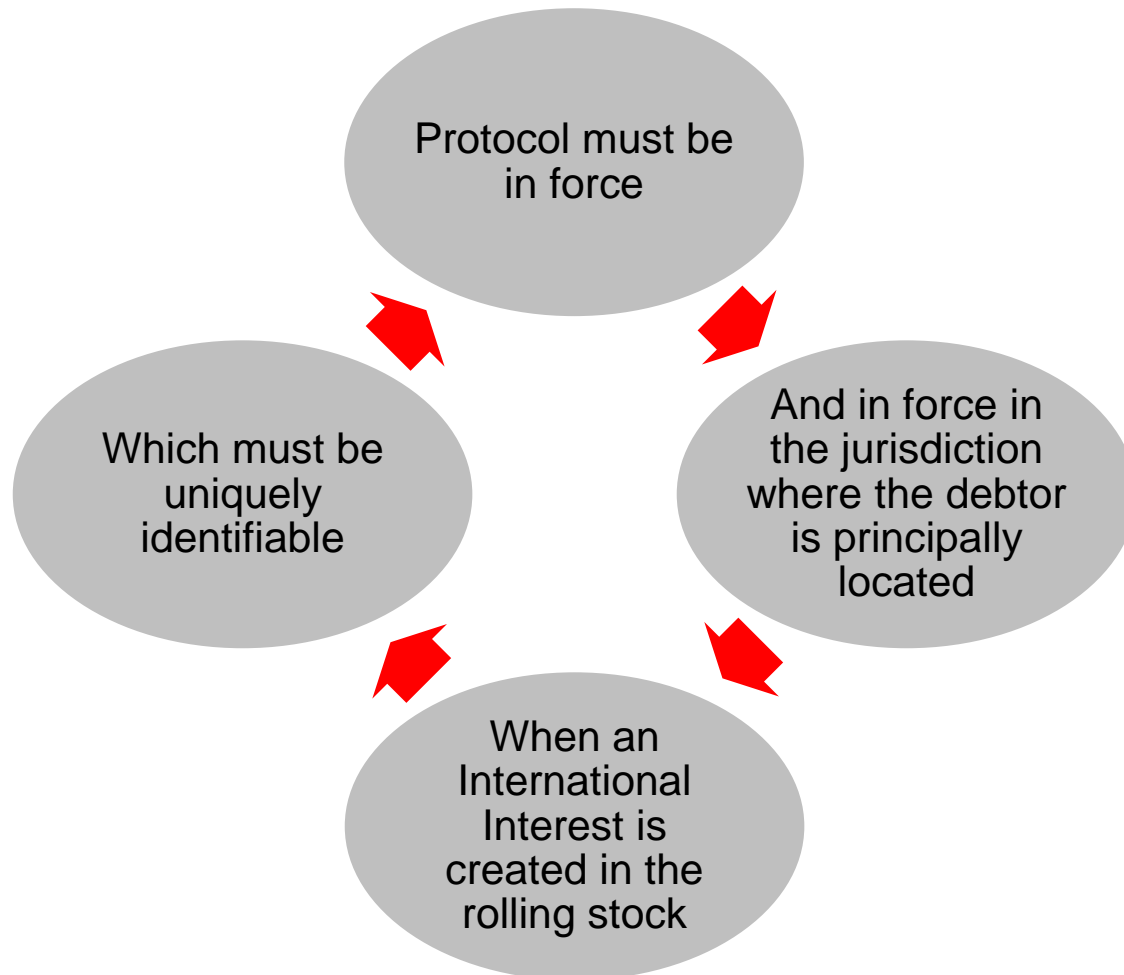
First global unique and permanent identification system for Rolling Stock

Unique 20 digit number allocated by registrar in Luxembourg, never re-used

Affixed permanently to rolling stock by manufacturer, maintainer or keeper



When does the Luxembourg Protocol apply?



Luxembourg Benefits

The Protocol

- Establishes a new domestic and international legal framework securing creditors
- Eliminates complex documentation and structures – saving money
- Resolves cross border and conflict of laws issues
- Minimises need for state support
- Reduces private financing costs and, for exporters, ECA and political risk premiums
- Facilitates operating and finance leasing and other private sector finance
- Makes the industry more competitive against road and aircraft transportation



The Status of the Luxembourg Rail Protocol

Adopted 2007 (not yet in force)

Appointment of Registrar (SITA subsidiary) December 2014

Ratified by EU and Luxembourg

Signed by Italy, Germany, France, Mozambique, Switzerland, Gabon and UK – all, together with Sweden, moving towards ratification

Other EU and non-European countries now actively working on ratifications

4 ratifications required, and secretariat (OTIF) must also authorise that the Registry is ready, before the Protocol “goes live”

Expected to be in force in 2018



Why the Protocol is Important

Creates a common system, operating in various different countries, protecting the interest of secured creditors, owners and operators

Creates a new legal framework for domestic financings of railway equipment, reducing risk and cost, even where the assets are operating outside of a country's borders

Relieves State budget as private investors, pension funds and banks finance old and new fleets

URVIS identifier will be unique and permanent to run alongside other local numbering system resulting in a global system for identifying and tracking the location and status of rolling stock



Why the Protocol is Important

Protects rolling stock financed in one part of a continent when it is operating outside of that jurisdiction

Secures and reduces the cost of credit given to operators outside of a country by ECAs as part of export programme



Conclusion

Railways are now the sunrise industry for good economic, social, environmental and political reasons

New investment will mean significant additional demand for passenger and freight rolling stock

And more private finance through loans and leases, where security of the collateral will be critical

Leading to a larger industry, more dynamic, transparent and competitive industry

The Protocol offers a better legal solution for asset based financing

It's a "win" for all operators and manufacturers in relation to domestic financing and export credits



Further Materials

[Luxembourg Protocol in a Nutshell \(English\)](#)

[Summary of the Luxembourg Protocol](#)

[Full Luxembourg Protocol](#)

[Rail Working Group brochure](#)

[Key talking points](#)

[Working towards a global common identifier for railway rolling stock](#)

www.railworkinggroup.org



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