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Embargoed until 8.00 a.m. Central European Summer Time, 20th May 2019

PRESS RELEASE

Zug 20th May 2019

Study shows private financing of railway rolling stock in Europe growing at a snail's pace

The latest study by Roland Berger for the Rail Working Group covering the period 2015-2017 shows private financing involved in almost a quarter of rolling stock orders in Europe by volume (actual figure: 23%). This is up from 13% in the period 2011-2013, and 20% in the years 2013-2015.

Based on these figures, the study projects that private financing will be an increasingly important source of finance for rolling stock orders in the 2021-2023 timeframe, potentially covering up to 31% of spending by volume. Total annual investment volume in Europe, which fell slightly from EUR 13.33 bn in 2011-13 to EUR 12.12 bn in 2013-15, increased to EUR 14.95 bn in 2015-2017.

According to the new study, countries with major rail liberalization programmes (e.g. the UK and Germany) will continue to be the main markets for private finance, reinforcing the correlation between market liberalisation and private capital. But progress is far too slow, according to industry insiders, with continuing reluctance in the private sector to invest in rail equipment, combined with reticence by governments and public sector operators to embrace the opportunities and disciplines of shifting the burden of financing procurement to the private sector. This means that there is an urgent need to create the conditions to secure existing private credit and

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attract more private finance at affordable rates. A new global treaty, the Luxembourg Rail Protocol, will make this happen.

The Rail Working Group and consulting firm Roland Berger have just published a new study revealing the public-private funding split for rolling stock procurement in Europe. The study analyses 590 rolling stock procurement projects in the years 2015 to 2017 in 23 countries across Europe, when annual average order volume rose to EUR 14.95 bn. During this period, EUR 11.5 bn. was financed directly or indirectly by governments or state-owned agencies, (77% of the total), with the balance, EUR 3.4 bn (23%), provided by private financiers.

In Western Europe, private finance accounted for 23% of total rolling stock investment in 2015-2017, whereas in Eastern Europe, 20% of investment was privately funded. This shows a major increase in private funding in Eastern Europe: in 2011-2013, private finance only funded 11% of procurement by volume.

This new study follows two previous analyses. The first, for the period 2011-13, was published by the Rail Working Group and Roland Berger in January 2016. The second, covering 2013-2015, was published in March 2017. The share of projects involving private financing has increased considerably: from 18% in 2013, to 35% in 2015, to 42% in 2017.

A full copy of the latest study is available at www.railworkinggroup.org/wp-content/uploads/docs/R0849.pdf

The new study also reaffirms the clear correlation between the deregulation of rail markets and private finance: the more markets are opened up, the greater the role private capital will play in financing new railway equipment.

“Both the absolute level of rolling stock procurement and the share privately financed are likely to increase further with the adoption of the Luxembourg Rail Protocol,” commented Andreas Schwillig, Partner at Roland Berger, one of the authors of the report. “In order to facilitate private financing as a growth driver, public authorities, train operators and OEMs should aim at further standardizing vehicles, which will facilitate leasing and enable wider use across different countries.”

The new study was launched today in Zug. Howard Rosen, Chairman of the Rail Working Group, speaking at the seminar, lamented the slow development of the private finance market for rail equipment: “Unlike the aviation industry, the vast majority of rolling stock procurement in Europe is either funded or underwritten by governments; this is unnecessary and places a huge burden on government finances. Currently there is limited legal protection for private creditors, especially when rolling stock crosses a border. The introduction of open access for operators across Europe, and the dramatic increase of rail traffic between Europe and Asia, makes this a critical issue going forward.” He added: “European states need to ratify the Luxembourg Rail Protocol as a matter of urgency, in order to open the way to increased and cheaper private funding and a more dynamic and competitive rail industry with all the environmental, social and economic benefits that will bring.”



NOTES FOR EDITORS

The Luxembourg Rail Protocol to the Cape Town Convention on International Interests in Mobile Equipment is a new global treaty which will make it much easier and cheaper for the private sector to finance railway rolling stock. It sets up a new system for the recognition, priorities and enforcement of creditor and lessor rights, which will be registered in an international registry based in Luxembourg and accessible online 24/7. The Protocol is not yet in force, but Luxembourg, Sweden and Gabon have ratified it, as has the European Union in relation to its competences. France, Germany, Italy, Mozambique, Switzerland and the UK have all signed the Protocol, and they and many other countries around the world are working towards the adoption of the Protocol. The Protocol is expected to come into force in early 2020. The comparable protocol for aircraft has been in force since 2006 and has now been adopted by 75 states.

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The Rail Working Group is a Swiss not-for-profit rail and finance industry group, established in 1996, focused on the adoption and implementation of the Luxembourg Rail Protocol. It has close to 90 direct members across the world and, through its member associations, represents hundreds of stakeholders in the rail sector.

For more on the Luxembourg Rail Protocol and the Rail Working Group see www.railworkinggroup.org. The previous two studies published by the Rail Working Group and Roland Berger may be found at www.railworkinggroup.org/wp-content/uploads/docs/160122_Private_financing_of_rolling_stock_Europe.pdf (2016) www.railworkinggroup.org/wp-content/uploads/docs/R0718.pdf (2017)

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