



**Submission by the  
Rail Working Group  
to the Rail Supply Group's consultation on the Rail Sector Deal**

1. The Rail Working Group (RWG) is a not-for-profit group established at the request of UNIDROIT (the International Institute for the Unification of Private Law) to represent the position of the global rail industry relating to the adoption and implementation of the 2007 Luxembourg Protocol to the Cape Town Convention on International Interests in Mobile Equipment on matters relating to railway rolling stock (the "Rail Protocol"). Its membership is drawn from a wide range of suppliers to the rail industry including Alpha Trains, Deutsche Bahn, Macquarie European Rail, Centrus MDT, Pricewaterhouse Coopers and Sumitomo Mitsui Banking Corporation. Other members are themselves representative bodies of rail interests such as the UK's Rail Delivery Group (RDG) and international bodies including Community of European Railways (CER), European Rail Freight Association (ERFA), Union of European Rail Industries (UNIFE) and International Union of Railways (UIC).
2. Our principal concerns are to ensure that there are sufficient opportunities to support private finance for railway rolling stock and the provision of an international registry system for the protection of a creditor's interest in that rolling stock. This in turn will unlock demand for additional or replacement rolling stock and lead to opportunities for manufacturers (including UK manufacturers) to meet this need.
3. Globally railways currently invest approximately €35 billion a year in rolling stock. Governments are seeking to expand their railways as an efficient, environmentally friendly and safe way to transport people and goods in the 21<sup>st</sup> century, but have limited funds to do so. Private investors have funds that they would like to invest in the rail sector, but there is limited security available to support the repayment of loans or leases. Manufacturers, suppliers and financiers, such as those in the UK, are missing out on a number of global opportunities as state-backed industries are supported by "soft" loans and financiers are unable to compete on credit terms.
4. In its consultation, the Rail Supply Group (RSG) has expressed a desire to explore innovation and sustainable UK rail. It is also looking for the opportunity for government to prioritise the rail sector and unlock industry potential. The Rail Protocol supports both of these areas and will provide additional support to UK exports of rolling stock; to those organisations who are financing those exports, whether that be exporter-led finance or funding institutions and those professional services who advise on such transactions.
5. By reducing risk for rail equipment financiers, the Rail Protocol will:
  - attract more private sector lenders and lessors into the market, resulting in cheaper finance for non- state-guaranteed operators and creating choice for operators in relation to costs and types of financing;
  - facilitate the provision of finance to customers where, up to now, their poor credit and/or the lack of a legal infrastructure has discouraged creditors;

- attract capital investment, which will in turn promote the expansion of rolling stock manufacturing facilities; and
  - facilitate short-term operating leases of rolling stock, not just into railway operators from financiers, but also between operators, ensuring more efficient use of rolling stock.
6. The net result will be to lower barriers to entry into the industry for private sector financiers, provide greater choice to operators and open new markets for manufacturers in countries where finance has previously been limited or unavailable due to lack of security / certainty over recovering financed assets. It will also lead to a more dynamic industry.
  7. The Rail Protocol will be particularly helpful in respect of equipment which crosses borders, avoiding the present difficulties of security created under one law being challenged in the courts of another jurisdiction where the asset is located. However, it will also assist in domestic financing as it creates, for the first time, an electronic registry where the financier of an item of railway rolling stock can register their interest in that vehicle.
  8. The Rail Protocol can also have a significant benefit for manufacturers by:
    - reducing the financing costs for new rolling stock;
    - opening up new export markets in countries where finance was previously unobtainable; and
    - creating new funding streams to allow countries to purchase new fleets of rolling stock to replace or enhance existing fleets.
  9. The Aviation Protocol (a sister protocol to the Rail Protocol) has already helped to support new sales of aircraft, particularly in countries where the local law is unfavourable to financiers and creditors.
  10. The UK Government signed the Rail Protocol on 26 February 2016 and now needs to undertake the process of ratification. As part of its support for the UK rail sector, the RWG believes that the RSG should be giving strong encouragement to the UK Government to complete the ratification process, through the issue by the Department of Transport its long awaited industry consultation and the publication of the relevant legislation to ratify the Rail Protocol.
  11. In agreeing the Rail Sector Deal we urge the RSG to include clear support for the ratification of the Rail Protocol and to obtain an obligation from the UK Government to complete the ratification as soon as practicable. This creates a positive outcome for manufacturers, suppliers and financiers and has the potential to boost sector growth, both in the UK and abroad.

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