

# The Hidden Benefits of the Luxembourg Rail Protocol for Africa

Monday 18<sup>th</sup> January 2021

PIDA Week Webinar

The Luxembourg Rail Protocol: A new Rail Rolling Stock Financing Tool

Howard Rosen  
Chairman Rail Working Group  
Switzerland

# Introduction

- Luxembourg Rail Protocol delivers
  - ☐ Cheaper and easier private finance for rolling stock
  - ☐ Flexibility for operators and freedom for governments
  - ☐ An international public registry

# Introduction

- Luxembourg Rail Protocol delivers
  - ☐ Cheaper and easier private finance for rolling stock
  - ☐ Flexibility for operators and freedom for governments
  - ☐ An international public registry
- But also some significant hidden benefits for Africa
  - I. URVIS
  - II. Common system
  - III. Operating leasing

# I. Unique Vehicle Identification

- Rolling stock must be uniquely identifiable to register and enforce a creditor's security interest
- The Protocol sets up the first global unique and permanent identification system for rolling stock
- Unique Vehicle Rail Identification System (URVIS) will be established by registry regulations
- 16-digit number allocated by the Registrar in Luxembourg that will never be re-used
- Affixed permanently to each item of rolling stock by the manufacturer, maintainer or keeper

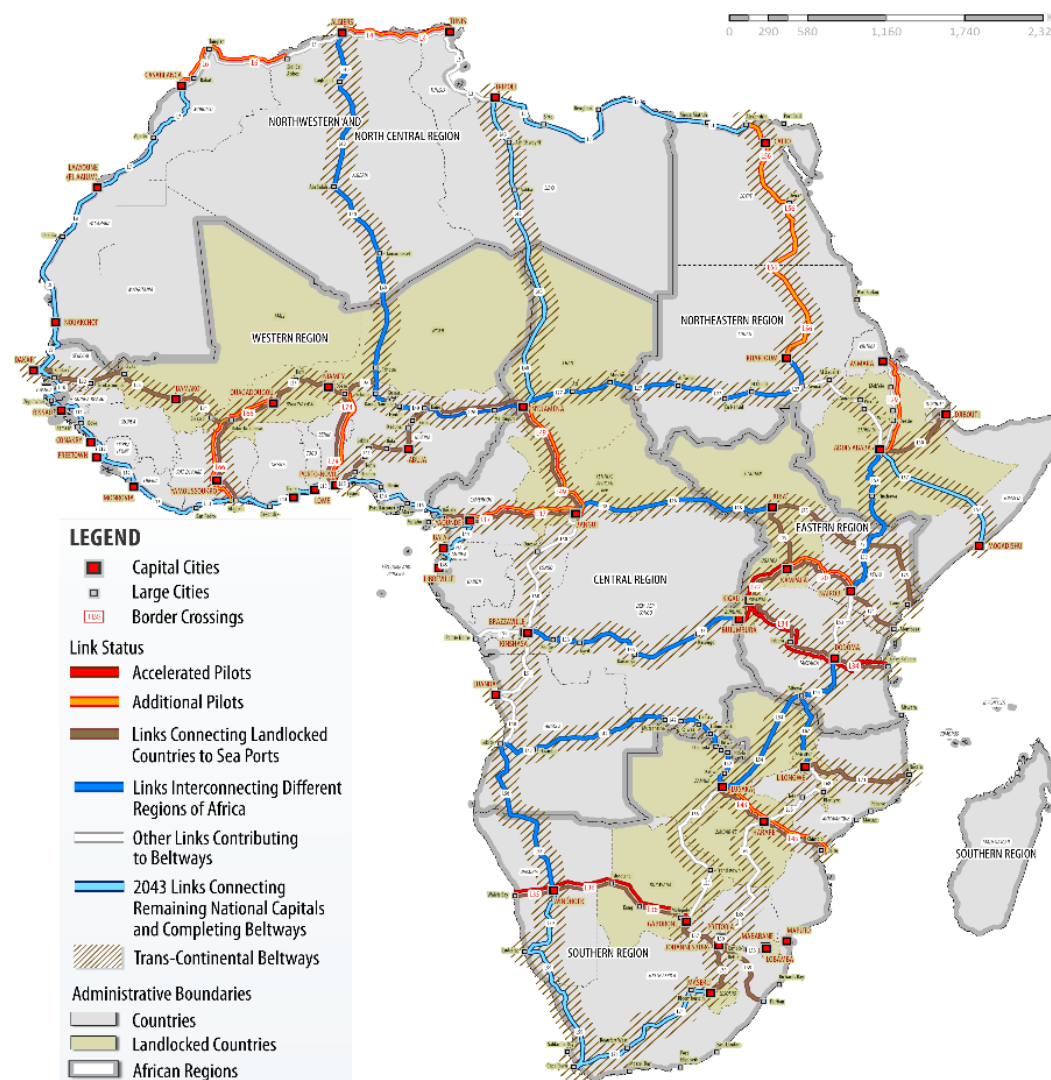
# I. Unique Vehicle Identification

- The URVIS number
  - ☐ One system for all rolling stock (from locomotives to passenger and freight wagons to trams and light rail trains)
  - ☐ Facilitates more efficient asset management
  - ☐ Underwrites customised predictive maintenance
  - ☐ Makes lifetime asset management and costs much easier to track for operators, manufacturers and financiers
  - ☐ Defence against fraud on purchasers and creditors of rolling stock
- Work ongoing with UN ECE on marking standards and information access – will produce best practice rules

# I. Unique Vehicle Identification

- Other benefits
  - ☐ One system applicable Africa-wide on all rail assets
  - ☐ Important for immatriculation – admission to rail system – and ongoing monitoring
  - ☐ Real-time tracking of condition and location of assets domestically and in other jurisdictions (and tracks)
  - ☐ A critical practical component of an African rail system

# AIHSRN Masterplan 2043



# I. Unique Vehicle Identification

- The hidden benefits – a building block for interoperability
  - ☐ Will support regional regulatory co-operation and common interoperability systems – eliminates reliance on unstable running numbers
  - ☐ facilitates
    - ✓ a lifetime dossier on each item of rolling stock
    - ✓ exchange of dossiers between regulators
    - ✓ real time monitoring of location and maintenance status of rolling stock
    - ✓ enforcement of admissibility standards

## II. A Common System

- The Protocol, when adopted by African states, will introduce a common system of rights and remedies for operators and investors
  - ☐ Creating a new easy solution for states with limited asset security legislation
  - ☐ Facilitating easier cross border operation of rail services and regional integration
  - ☐ Makes the railways more attractive investments for external private and public funders, thereby creating more affordable credit

## II. A Common System

- So the Protocol
  - ☐ Supports cross-border collaboration
  - ☐ Attracts new industry participants
  - ☐ Makes railways more commercial and competitive
  - ☐ Encourages the development of local financial services and maintenance industryand therefore more jobs and skills' development

## III. Operating Leasing

- Operating Leasing
  - ☐ Finance and Operating Leasing are critical ways to provide secured finance independent of government
  - ☐ Financier owns the financed equipment
  - ☐ Only possible if the lessor can be sure of recovering the leased asset on default or insolvency of the lessee
  - ☐ Or at the end of the lease, to recover the residual value invested
  - ☐ No Luxembourg Protocol, no leasing to moderate credits without (good) state guarantees – it's a binary decision

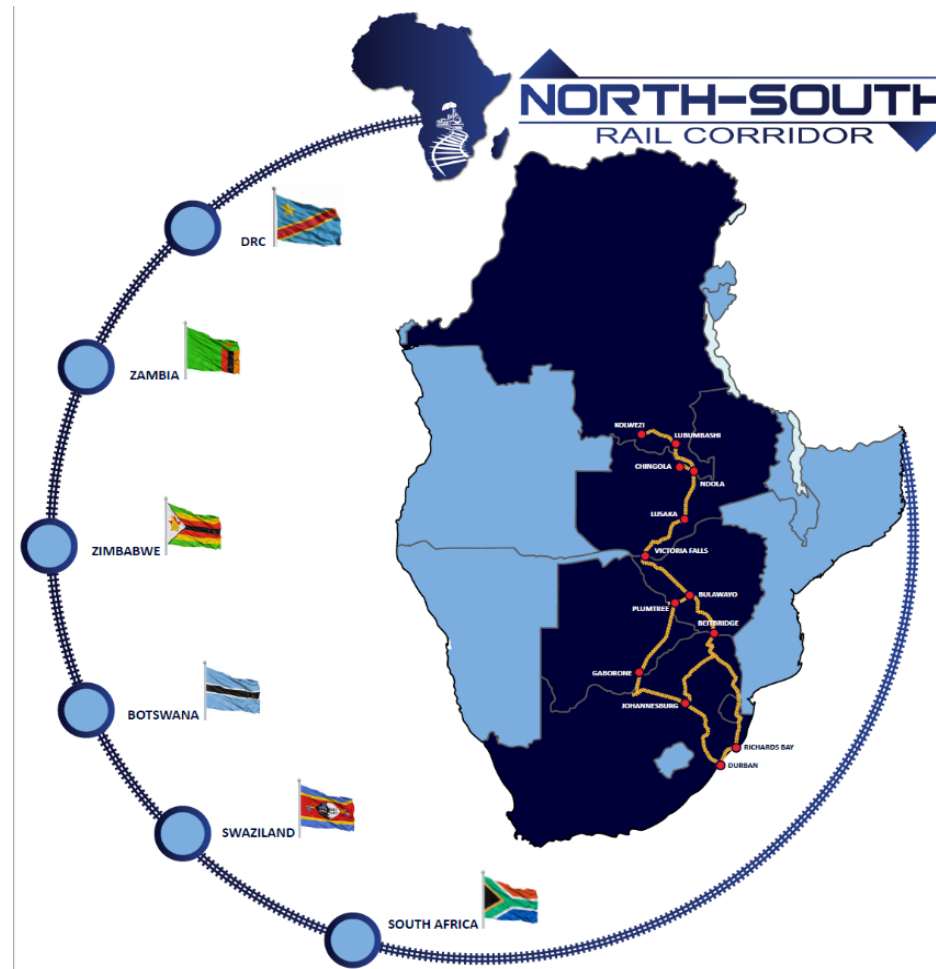
## III. Operating Leasing

- Operating Leasing
  - ☐ Operating leasing is a key component in the success of the aviation sector in the last 40 years
    - ✓ Lessee can be lightly capitalised
    - ✓ Flexible instrument: lessor can carry maintenance, insurance and other liabilities
    - ✓ Promotes a secondary market
  - ☐ Allocates practical and technological obsolescence and other risks where they can be most easily borne
  - ☐ Unburdens operator balance sheet – and operator is no longer an asset manager

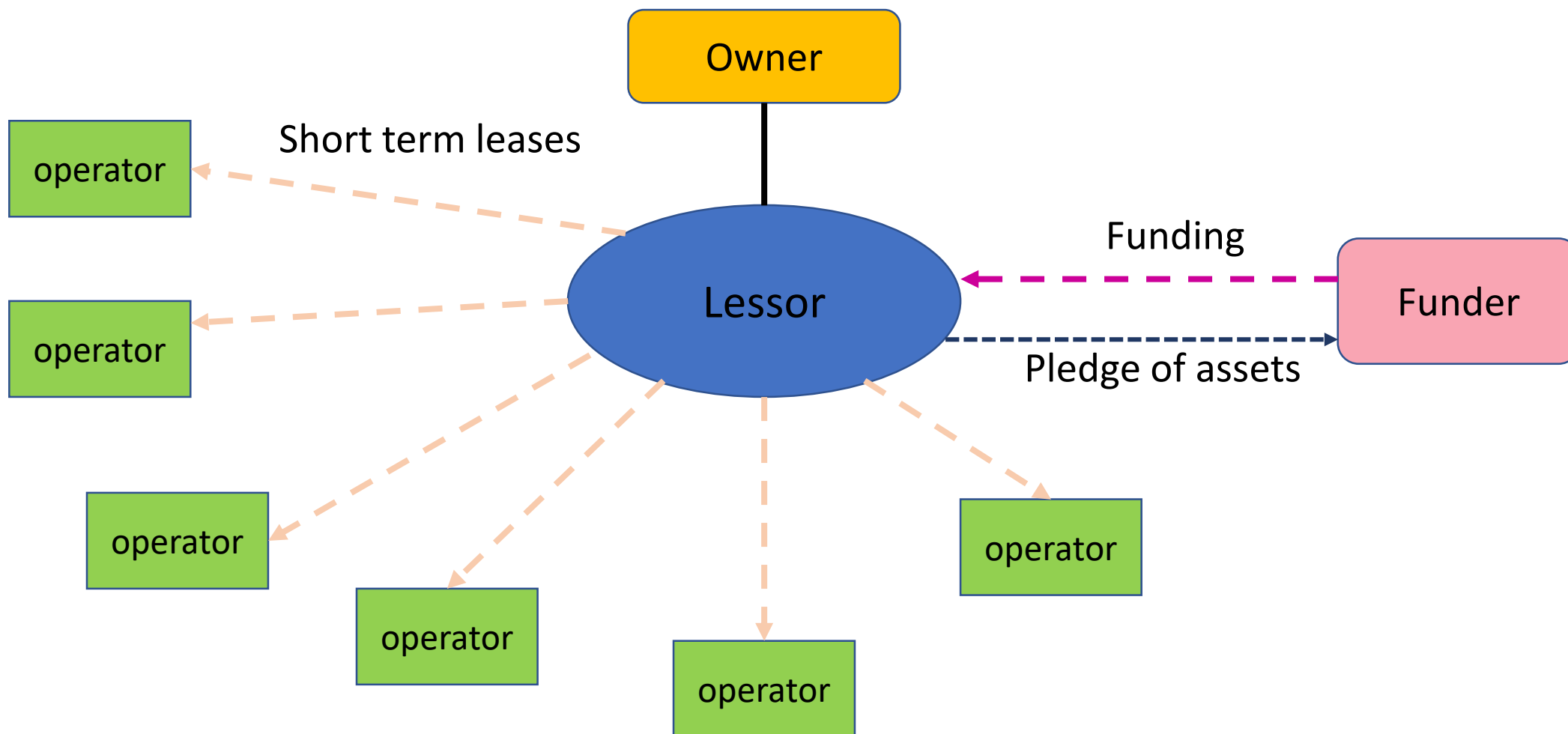
## III. Operating Leasing

- Operating Leasing
  - ☐ Provides **transparency** on daily costs
  - ☐ Driver towards **standardisation** because this enhances residual values – creating in turn cost savings through manufacturing economies of scale
  - ☐ Operators can **monetise** excess equipment
  - ☐ **Flexibility**: matches availability to operator needs
  - ☐ Facilitates flexible sharing of equipment according to need, both domestically and cross border within the same gauge system

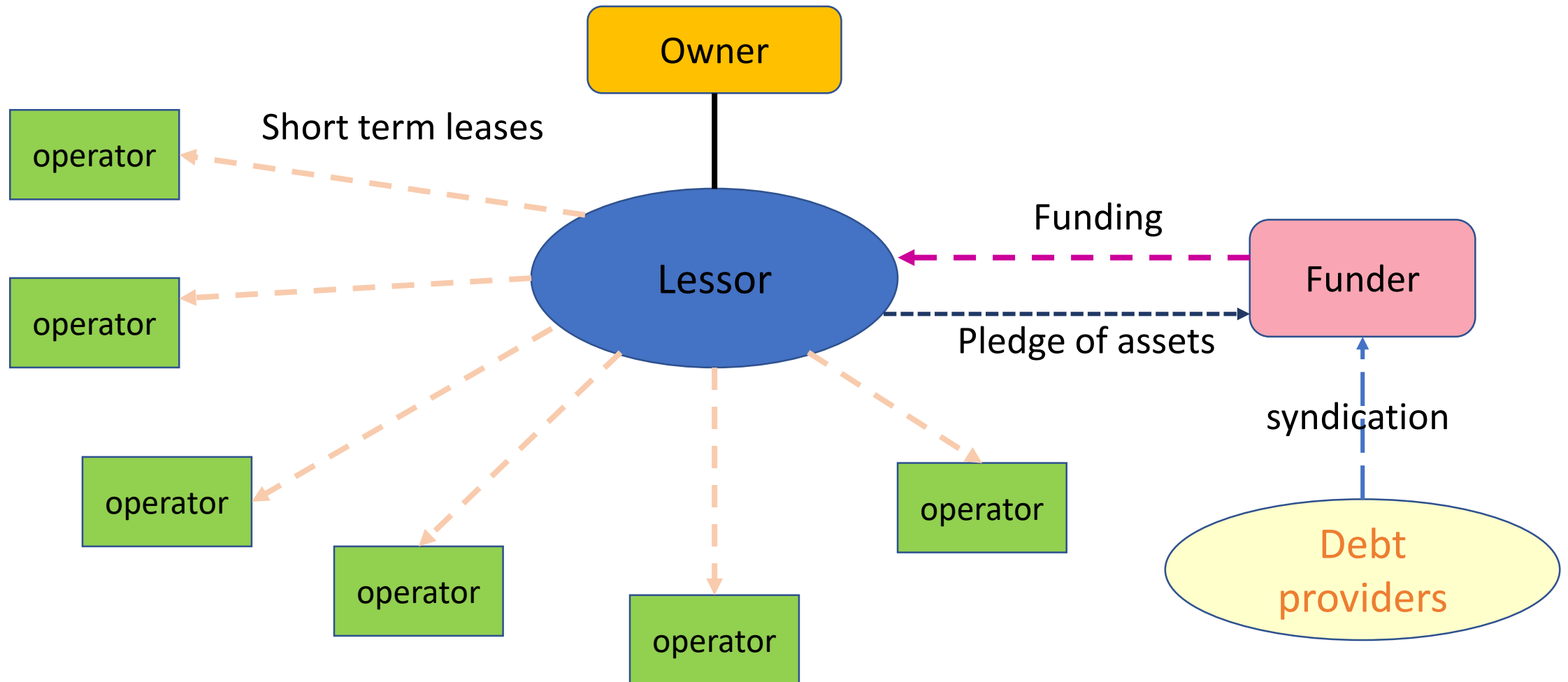
# III. Operating Leasing



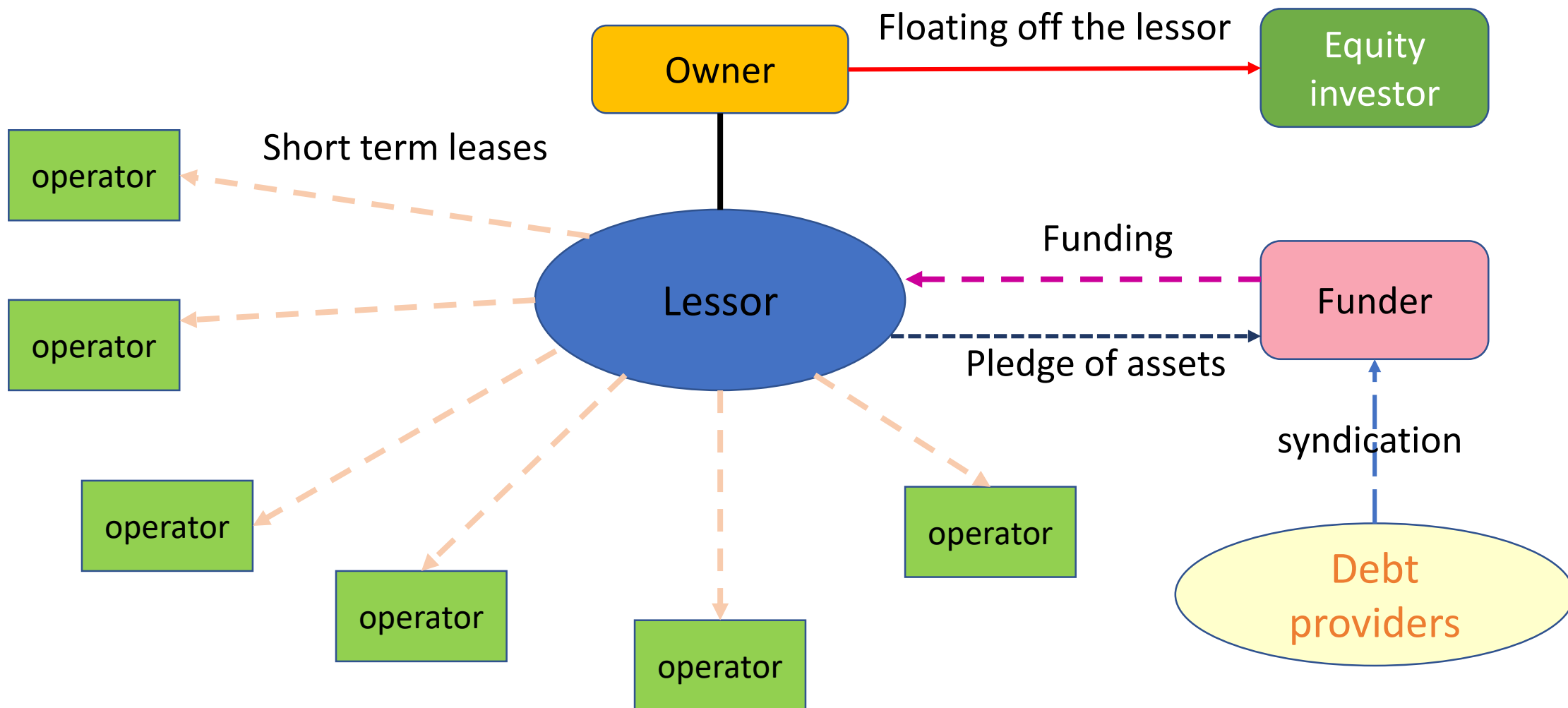
# Case Study SPC Model



# Case Study SPC Model



# Case Study SPC Model



## III. Operating Leasing

- General benefits for the private sector
  - ☐ Helps provide a more competitive service to freight shippers
  - ☐ Supports multi-modal operations
  - ☐ Makes new technology affordable
  - ☐ Creates new jobs and skills in manufacturing, maintenance, financial services and operations
  - ☐ Delivers more modern, reliable and efficient rolling stock for passenger and freight services, for business and the public

# Conclusion

- The Luxembourg Rail Protocol brings many general benefits but it also delivers three major hidden benefits for Africa:
  - I. The unique identification system (**URVIS**) supports interoperability, common equipment operating and safety standards and regional and continental regulation
  - II. The application of a **common system** around Africa encourages more investment, cross border services and regional collaboration and integration and new entrants
  - III. **Operating leasing** opens up new business models and opportunities for governments and operators
- *New decade, new realities, new priorities; it's time to move forward with the Luxembourg Rail Protocol*

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