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## **Why Germany should adopt the Luxembourg Rail Protocol**

The Luxembourg Protocol to the Cape Town Convention is a new global legal system for the recognition and prioritisation of security interests held by creditors lending on, or leasing, all types of railway equipment. This security will be registered in a new international registry, in Luxembourg, which will be searchable by the public 24/7. The Protocol is expected to come into operation in 2021.

Germany has signed the Protocol but needs to move forward to ratification. Adoption of the Protocol will bring various benefits for the German rail community. It will:

1. by introducing the International Registry, for the first time allow registration of security interests in railway rolling stock in a public register that can be accessed on a global basis. Thus, structuring of security will no longer require layers of national security interests, which, in turn, will simplify financing and leasing transactions and reduce transaction costs
2. by introducing a new global unique numbering system for rolling stock, give increased security to lenders and lessors, as well as the ability for manufacturers, operators, insurers, maintainers and financiers to track the location and status of the equipment, wherever it is, thereby making the railways safer and maintenance more efficient
3. increase the availability, and reduce the cost, of private finance for railway equipment, as lenders and lessors take into account lower capital costs, lower risk and lower transactional costs as well as help attract new sources of debt and equity for procurement programmes
4. stimulate demand for new rolling stock both domestically and in export markets, as well as directly benefit German manufacturers through encouraging standardisation
5. assist with exports of railway rolling stock from German manufacturers as other countries are motivated to ratify the Protocol, making customer procurement easier and more attractive

The Rail Working Group is a not-for-profit association constituted under Swiss law representing a broad cross section of the global railway community.

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6. remove the need for the state financing of rolling stock procurement, releasing needed re-equipment programmes from federal and local state budgetary constraints and creating resources for other priorities
7. facilitate public and private operators delegating or subcontracting parts of their operations and leasing out their rolling stock, where this will be more efficient, and open the way for independent finance for joint ventures.
8. support Germany's place as a financial services centre, whereby local refinancing of German lessors and banks will have the benefit of the additional security, regardless of the location of the assets and the operator
9. underwrite operating leasing throughout Europe, thereby
  - a. opening up new markets for local manufacturers and lessors where customers will not have the resources to buy
  - b. giving operators more flexibility in how they utilise and finance rolling stock
  - c. allowing a genuine transfer of risk to the private sector; and
  - d. through allocating higher residual value assumptions and lower rents for standard rolling stock, creating an economic dynamic for more efficient manufacturing of rail equipment.
10. eliminate the competitive advantage currently enjoyed by the aviation sector where the equivalent aircraft protocol to the Cape Town Convention is already in operation

Germany is a leader in the European rail sector as well as a major hub and transit country for cross border rail services. Its adoption of the Protocol will motivate neighbouring states to do the same, thereby in turn leading to lessors and financiers being protected where rolling stock crosses borders, as their international interests will be universally recognized. This will also assist the European Union to achieve its goals of shifting passenger and freight transportation onto the rails and creating a Single European Rail Area and a European market for rail services.

The Protocol will

- make rolling stock financing easier and less bureaucratic for operators
- provide new, needed, security for financiers, particularly important when financed assets cross borders
- relieve Federal and local government budgets as the private sector provides the resources for equipment procurement and takes over various obsolescence, maintenance and operating risks

The costs of the new system will be minimal. The advantages and opportunities will be tremendous.

For more on the Luxembourg Rail Protocol, visit [www.railworkinggroup.org](http://www.railworkinggroup.org), or contact us at [info@railworkinggroup.org](mailto:info@railworkinggroup.org). Keep up to date with all the latest developments via the Rail Working Group's [LinkedIn group page](#).