Securing international investment in railways: Financial collaboration in market regeneration

Middle East Rail Conference
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Identifying the trends in the rail sector

• Railways gradually being recognised as an essential part of the sustainable development agenda
• More passenger and freight traffic must be moved to the rails for good environmental and economic reasons
• Increasing cross border operations e.g. Belt & Road Initiative
• Urban rail transport is a strategic necessity
• New technology opening out new opportunities
### Identifying the trends in the rail sector

#### New Technology

<table>
<thead>
<tr>
<th>Regenerative braking</th>
<th>Supercapacitor trams</th>
<th>Low-noise rolling stock</th>
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</thead>
<tbody>
<tr>
<td>Automated train operation</td>
<td>High-speed trains</td>
<td>Automatic coupling systems</td>
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<tr>
<td>Real-time rolling stock location and diagnostic systems</td>
<td>Variable-gauge rolling stock</td>
<td>Positive train control/ERTMS &amp; other in cab signal systems</td>
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<td>Hybrid, clean diesel &amp; hydrogen/fuel cell locomotives</td>
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Identifying the trends in the rail sector

• Separation of operations and infrastructure
• Privatisation of state actors
• Rail sector gradually liberalised
  = Public and Private operators
  = Open access
  = More competition – and a more competitive industry
  = More private finance
• Public and business demanding a higher quality of service
• Governments cannot afford the massive investment needed in the railways
Identifying the trends in the rail sector

PERCENTAGE OF ROLLING STOCK ORDER VOLUMES (EUROPE) USING PRIVATE FINANCING

Source:
Roland Berger reports for the Rail Working Group
Identifying the trends in the rail sector

PERCENTAGE OF PROJECTS (EUROPE) USING PRIVATE FINANCING

Source: Roland Berger reports for the Rail Working Group
Analysing the funding requirements

• Infrastructure
• Operations
• Rolling stock
The current funding models

• Public finance
  ❑ Equity, state loans and grants, aid
• Public Export Finance
  ❑ ECA, state or para-statal loans or guarantees
• Private investment
  ❑ Privatisation: equity and debt for private companies
  ❑ Secured debt
  ❑ Leasing
  ❑ BOT/PPP
Financing Infrastructure

• Public finance
  ❑ Equity, state loans and grants, aid
  ❑ MDB support or guarantees

• Private investment
  ❑ Equity and debt for private companies
  ❑ Real estate value capture
Financing Operations

• Public finance
  □ Equity
  □ State subsidies, loans or grants

• Private investment
  □ Equity and debt for private companies
  □ Fare box financings
Financing Rolling Stock

• Public finance
  ❑ Equity, debt and grants for state operators
  ❑ ECA/MDB credit support

• Private investment
  ❑ Equity
  ❑ Secured debt
  ❑ leases
Financing Rolling Stock

Debt model

- Shareholders
  - Capital

Operator
  - Sale of rolling stock
  - Debt
  - Pledge of rolling stock
  - Fares/fees

- Manufacturer
- Bank

Customers
Financing Rolling Stock

Lease model

Manufacturer → Sale of rolling stock → Leaseco → 10 year lease → Operator → Fares/fees → Customers

Shareholders → Capital → Leaseco → Debt → Bank

Leaseco: 
- Capital from Shareholders
- Debt from Bank
- Pledge

Bank: 
- Debt to Leaseco

Operator: 
- 10 year lease
- Rentals from Operator to Customers

Customers: 
- Fares/fees to Operator
The problems for rolling stock funders

- No common rules on debtor insolvency
- No national title or security registries
- Identifiers unstable (from a creditor’s perspective) and inconsistent across the sector
- Limited legal infrastructure domestically and internationally
- Repossession issues for creditors on debtor default/insolvency
- Public Policy and Public Interest
- Banks’ capital requirements and Basel II and III
- Limited commercial tracking of location and status of assets
- Additional security issues and conflict of laws when financed assets cross borders
Luxembourg Rail Protocol

- Applies the Cape Town Convention to rolling stock when debtor is located in a contracting state
- Global system of international legal rights and priorities for secured creditors, lessors and conditional vendors
- Common rules for enforcing creditor rights upon debtor default or insolvency
- Public international registry of security interests in Luxembourg accessible 24/7 online
- Will introduce global unique identification system for railway equipment
The Luxembourg Rail Protocol applies to ALL Rolling Stock

- Wherever manufactured, whatever gauge and operability standards
- Broadly defined: “...vehicles movable on a fixed railway track or directly on, above or below a guideway.” This covers:
  - Inter-urban and urban rolling stock
  - Specialist boring and other rail mounted equipment
  - Metro trains and trams
  - Monorail trains and cable cars
  - People movers/shuttles at airports
  - Cranes and gantries at ports
  - Hyperloop pods
Unique Vehicle Identification

- Rolling stock must be uniquely identifiable to register interest
- Unique Vehicle Rail Identification System (URVIS) will be established by registry regulations
- First global unique and permanent identification system for rolling stock
- 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
The Protocol’s status

• Adopted in 2007 (4 ratifications and operational registry required to enter into force – expected next 12 months)
• Appointment of Regulis SA (SITA subsidiary) as Registrar in Luxembourg in December 2014
• Ratified by Gabon, Luxembourg and Sweden (and the EU) and Kenya (hopefully) about to ratify
• Signed by Italy, Germany, France, Mozambique, Switzerland and UK - all moving towards ratification
• Also under review by many other governments.
Private finance for all three elements?

• PPP and BOT
• A potential problem or a solution
  ❑ One size fits all?
  ❑ Asking the private sector to take unknowable risks
  ❑ Political risk
  ❑ Timing issues
  ❑ Differentiate between public finance and public delivery; one does not mean the other
Conclusions

• Railways have to grow and investment urgently needed
• Governments have limited resources
• Market regeneration needs a mixture of public and private finance
• Private finance has its place but it’s not a panacea
• Operations can go into the private sector through concessions and franchises
• Rolling stock fully financeable through the private sector as long as is secure (best if Luxembourg Rail Protocol in place)
• Infrastructure building is best state financed but not necessarily state managed
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