Identifying opportunities and risks faced by governments, investors and financiers when financing the railways of the future

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Identifying opportunities and risks faced by governments, investors and financiers when financing the railways of the future

• Introduction
• Assessing the government’s role in providing adequate security for financiers
• Exploring rolling stock financing options
• Allocating asset risk and ensuring viable contracts and partnerships
Introduction
Exploring the financing options

• Government “subsidies” and loans
• Aid Agency/Export Credit Agency support
• Using equity and cash flow
• Private sector finance
• The GCC/Oman rail context
Assessing the government’s role in providing adequate security for financiers
What is the government’s proper role?

- Shareholder conflicts of interest
- Government financial support
  - When is state aid acceptable
  - The complexities of competition
  - Budgetary constraints and efficient resource allocation
- Government as a supporter and facilitator
Providing adequate security for financiers

- Is a government guarantee possible or acceptable?
- Real asset based finance
  - means creating unimpeachable security
  - Local law and how “Luxembourg” will help
Financing rolling stock today

Owner in Country A

Conditional Sale

Purchaser in Country B

Lease

Operator in Country C

Loan

Security

Bank in Country D

Rolling stock operating in countries E, F & G

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The Luxembourg Protocol
Protecting creditor (and debtor) rights

• What the Protocol does
  – a new type of security internationally recognised with established priorities
  – registerable in a publicly searchable 24/7 registry
  – Additional creditor rights, facilitating collateralised (and cheaper) debt
  – Lowers barriers to entry
  – Facilitates operating leases
The Luxembourg Protocol
Protecting creditor (and debtor) rights

• Application of the Protocol
  – All rolling stock
  – Applies to security under leases, loans and conditional sales
  – Debtor location
Exploring rolling stock financing options

• Equity, state loans and grants, aid
• Debt finance
  – Unsecured
  – Secured
• BOT/combined financings
• Farebox or other asset securitisations
• Leasing (from finance to operating leasing)
Further considerations in relation to leasing

• Fixed costs and variable income?
• Asset maintenance
• The “sticky factor”
• Lack of ownership
• Limited not complete control - operational: restrictions on asset management
• Availability
• Balance sheet - the Health Warning
• Legal review and costs
Allocating asset risk, ensuring viable contracts and partnerships
Allocating asset risk

- **Transparency**
  - Cost per day analysis
  - Add on costs for enhancements

- **Asset risk**
  - Depends on lease type
  - Watch out for inertia
  - Impact on asset strategy
Ensuring viable contracts

- Applicable law and jurisdiction
- Recovering the equipment
- Anticipating the Luxembourg Protocol
- When to take security
- Watching for the maintenance issues
Ensuring viable partnerships

- BOT – understanding the commercial risks
- The position of the manufacturer
- The relationship with the banks
- Private investors
Conclusion

• Private sector finance will be part of the railways’ future worldwide
• It will not only deal with finance but also risk
• Scope for innovative solutions
• These will be a catalyst for a more commercial rail industry
• And provide some tremendous opportunities
• But “Luxembourg” will make it easier
Conclusion

• Rolling stock financing comes in different shapes and sizes

• Government can work better as a facilitator rather than a cash cow but this depends on true asset based financing

• BOT structures are tremendously useful but sometimes deconstruction can help

• And in the end it’s all about asset risk allocation and management; have the courage to seize the challenges and ensure governments support you
Securing viable funding sources to finance transport infrastructure projects

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