The Hidden Benefits of the Luxembourg Rail Protocol for Africa

Monday 18th 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
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 industry
  and 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

Owner

Lessor

Funder

operator

operator

operator

operator

operator

operator

operator

Funding

Pledge of assets

Short term leases
Case Study SPC Model

Owner

Lessor

Funder

Short term leases

Funding

Pledge of assets

syndication

Debt providers

operator

operator

operator

operator

operator
Case Study SPC Model

Owner

Lessor

Floating off the lessor

Equity investor

Funder

Pledge of assets

Funding

Short term leases

operator

operator

operator

operator

operator

operator

operator

operator

Debt providers

syndication

ECA
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
The Hidden Benefits of the Luxembourg Rail Protocol for Africa

Monday 18th January 2021
Webinar on the Luxembourg Rail Protocol

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

Howard Rosen
Chairman Rail Working Group
Switzerland

www.railworkinggroup.org
RailWorkingGrp