

Distr.: Restricted
20 August 2019

English only

Economic Commission for Europe

Inland Transport Committee

Working Party on Rail Transport

Group of Experts on Permanent Identification of Railway Rolling Stock

First session

Geneva, 2–4 September 2020

Item 3 of the provisional agenda

Background to the Group

Luxembourg Rail Protocol: estimated impact on rolling stock financing cost in countries using the 1520 gauge

Submitted by Rail Working Group

Luxembourg Rail Protocol: estimated impact on rolling stock financing cost in countries using the 1520 gauge

Prepared for

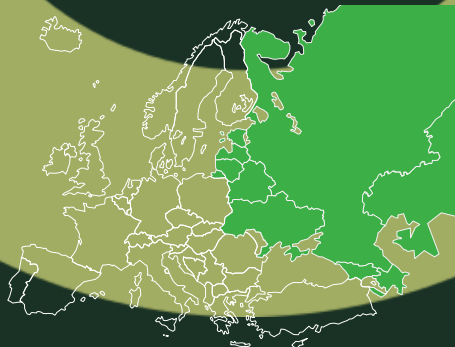


Objectives

- 1 Develop a solid evidence base with 9 countries using the 1520 gauge
- 2 Develop a robust assessment of economic benefits, based on the evidence
- 3 Help RWG, UNIDROIT and their members to consider the country and market impact of the Protocol
- 4 Help governments consider the effect of the Protocol before its adoption
- 5 Complement the legal analysis supporting implementation / adoption of the Protocol

Summary

**Direct
micro-benefits
from 9 countries
assessed at
€13.9bn**



**Many additional
micro and macro
benefits
expected in
addition**

Context

1

Global market volume of the rail industry of €159bn per annum, including €54bn in rolling stock

2

Total market for rail supply is set to continue its growth of recent years at 2.6% per year

3

Growth in the rail market is currently constrained by the availability of funding

4

Luxembourg Rail Protocol improves availability of funds

Contents

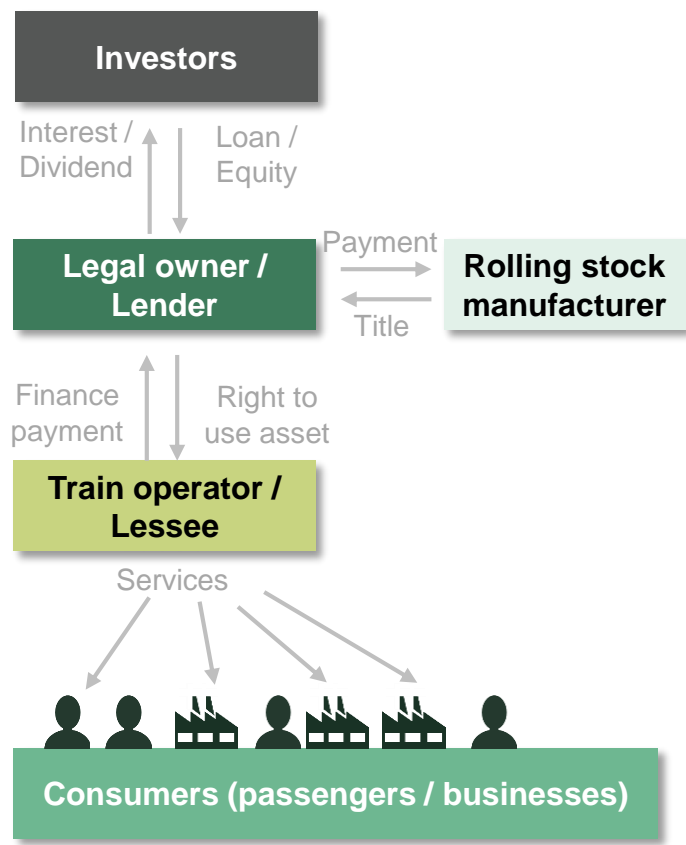
- 1 Benefits from the Luxembourg Rail Protocol
- 2 Assessing direct financing cost reductions: methodology
- 3 Country case studies



Benefits from the Luxembourg Rail Protocol (LRP)

The Luxembourg Rail Protocol (LRP)

Financing the rail industry



Issue with bringing in private capital due to:

- uncertainty around the repossession of collateral for creditors
- limited legal infrastructure and tracking of assets
- cross border risks, no international registry
- no common system for identifying railway equipment worldwide

Solution: Luxembourg Rail Protocol

New global legal systems for the recognition and prioritisation of security interests held by creditors

Debtors covered



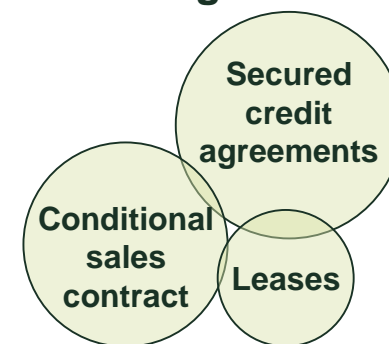
all debtors in ratifying state

Vehicles covered



all vehicles running on tracks or above, on, or under a guideway

Financing covered



Features of LRP deliver both micro- and macro- benefits

Single central global registry

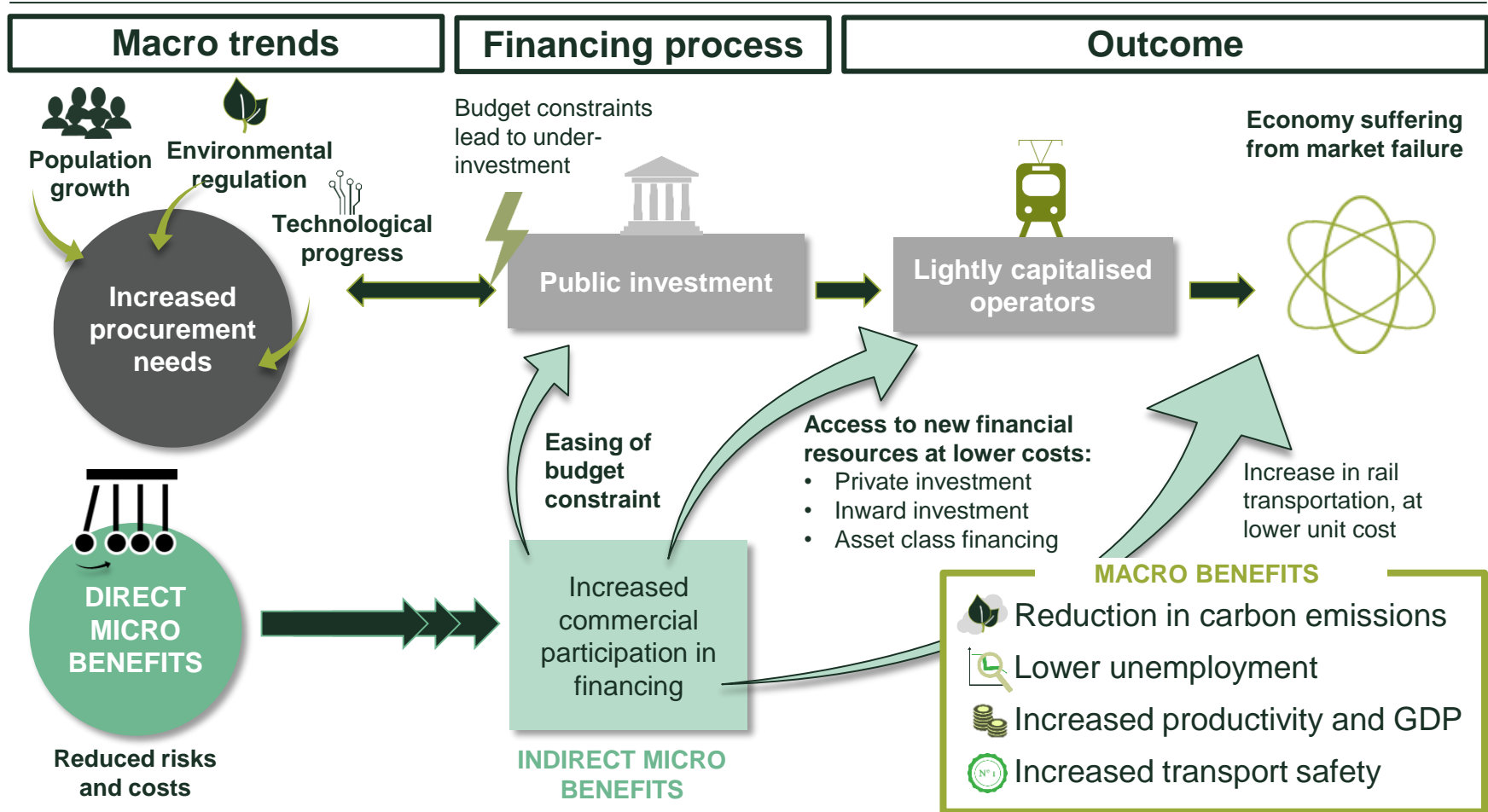
- **Facilitates** local **recording**, international interests and universal numbering system
- Establishes **clear priority** among **creditors**
- Provides for **real time monitoring** – creditors can check rival claims to related rail equipment
- **Eliminates unnecessary restructuring** of security interests as transactions change

Clear legal framework and enforcement

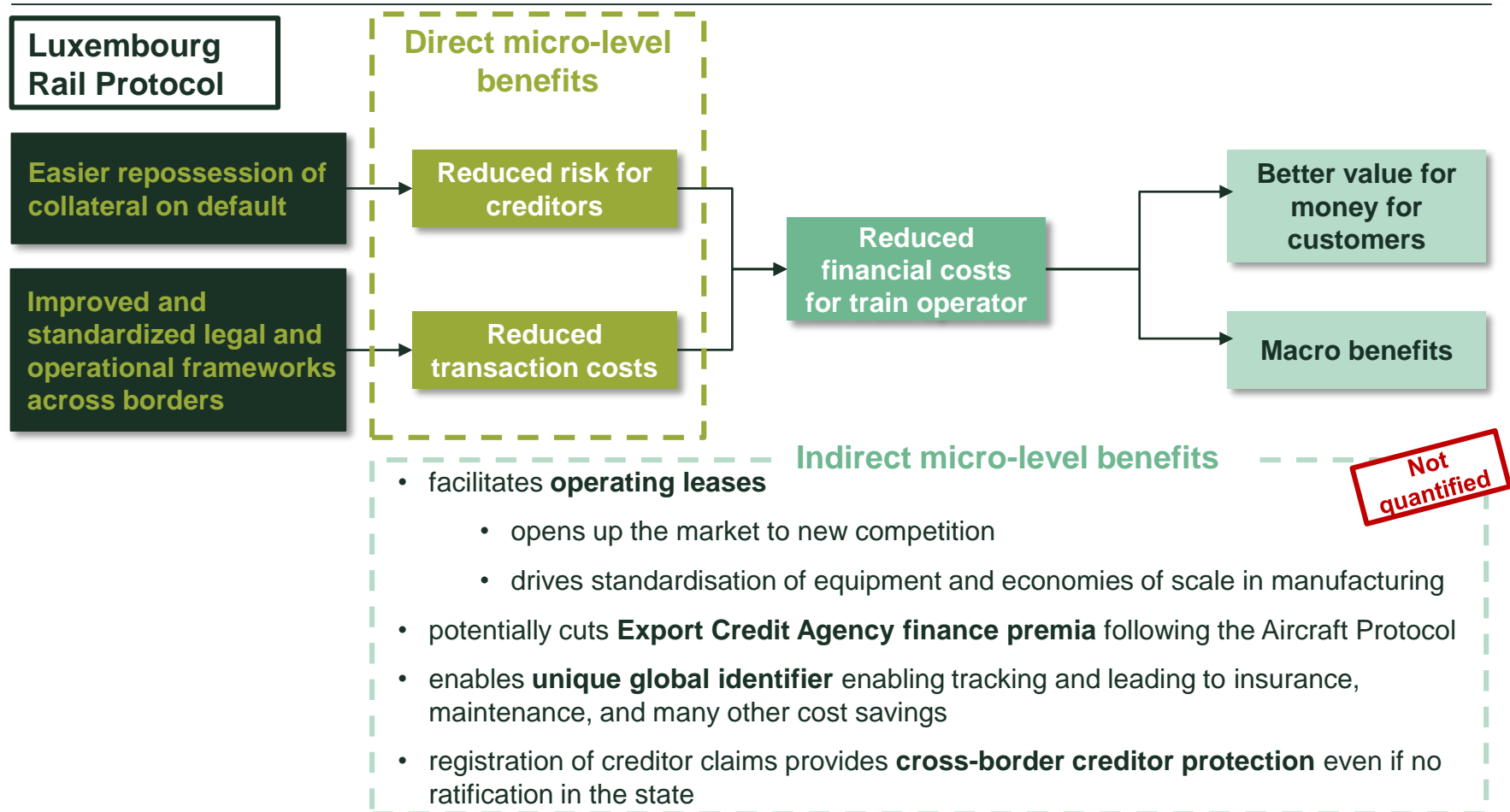
- **Covers contracting states and all debtors therein** without differentiating across the type of financing structures
- Provides for **clear creditor rights** on termination, default, and insolvency
- Recognises and regulates the **security interests** of financiers and other parties
- Opens the way to **secured finance** with recourse only to the **assets**



LRP will reduce costs and help growth in rail transport

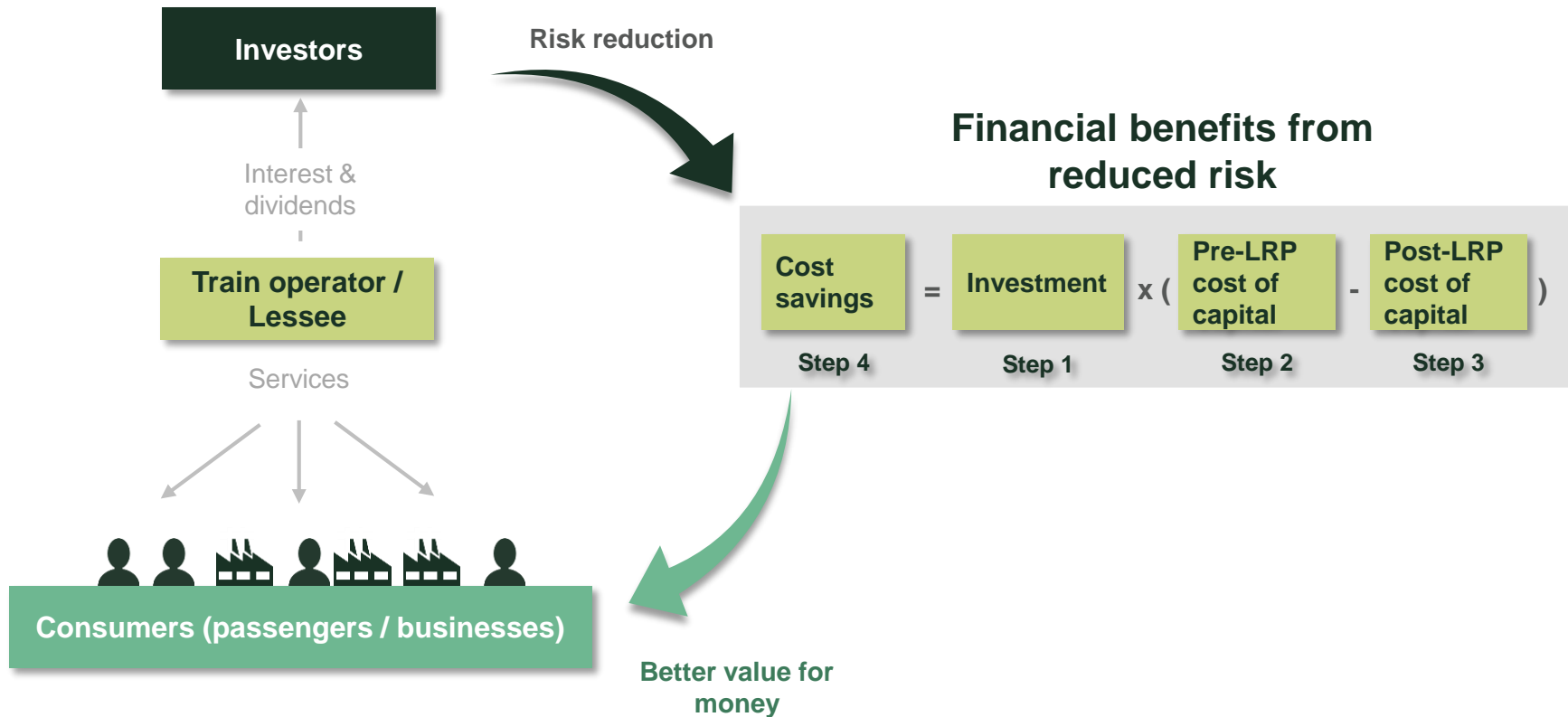


This study focuses on the direct micro-level benefits



Assessing direct financing cost reductions: methodology

Methodological approach





Step 1: Investment to finance

Key assumptions

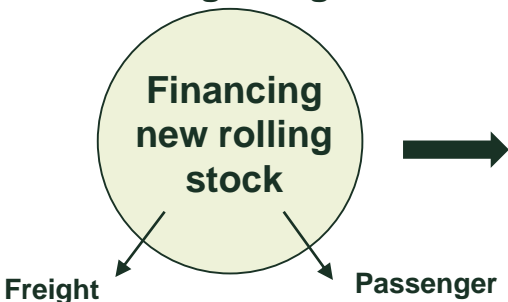
- **Investment:** assume that both the financing of new rolling stock and the refinancing of the current fleet are affected by the ratification of the LRP. Refinancing occurs when the age of a RS unit reaches 10 years or 20 years.
- **Source of financing:** assume that (i) only private financing benefits from the LRP; (ii) the share of public financing will decrease by half by 2023 due to the catalyst effect of the LRP and then remain constant from 2023 onwards.
- **Periods:** forecast from 2018 to 2047 – terminal value calculated at 2047.

2018-2022: forecasts of new deliveries are assumed to offset retirements based on assumed asset life of 30 years.

2023-2032: model a catch-up period of higher deliveries for countries where average age of fleet exceeds 20 years, i.e. where the LRP will unlock new finance and deliveries to replace aging fleet.

Investment

Financing using LRP

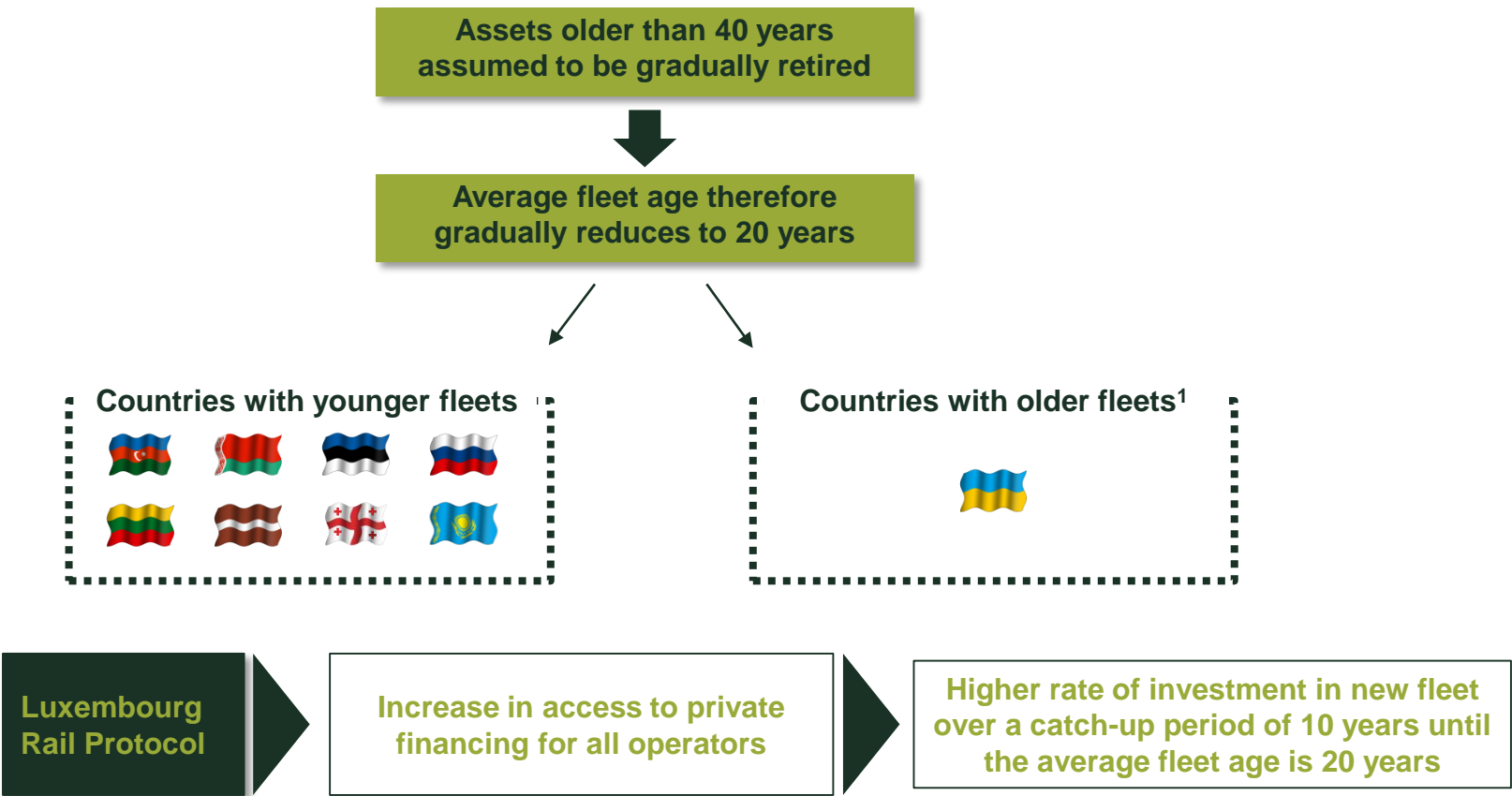


Data (sources)

2018-2022	2023-2032	2033-2047	2048 onwards
Average annual market value of deliveries by type of RS by country (SCI Verkehr data)	Theoretical CAGR over a 10-year-period to account for catch-up when average fleet age > 20 years (assumption)	Steady state with annual market value growing with inflation in the EU (2%) (assumption)	Growing into perpetuity using inflation as growth rate, and discounted at the pre-LRP WACC (assumption)

Catch-up through reducing average age of fleet

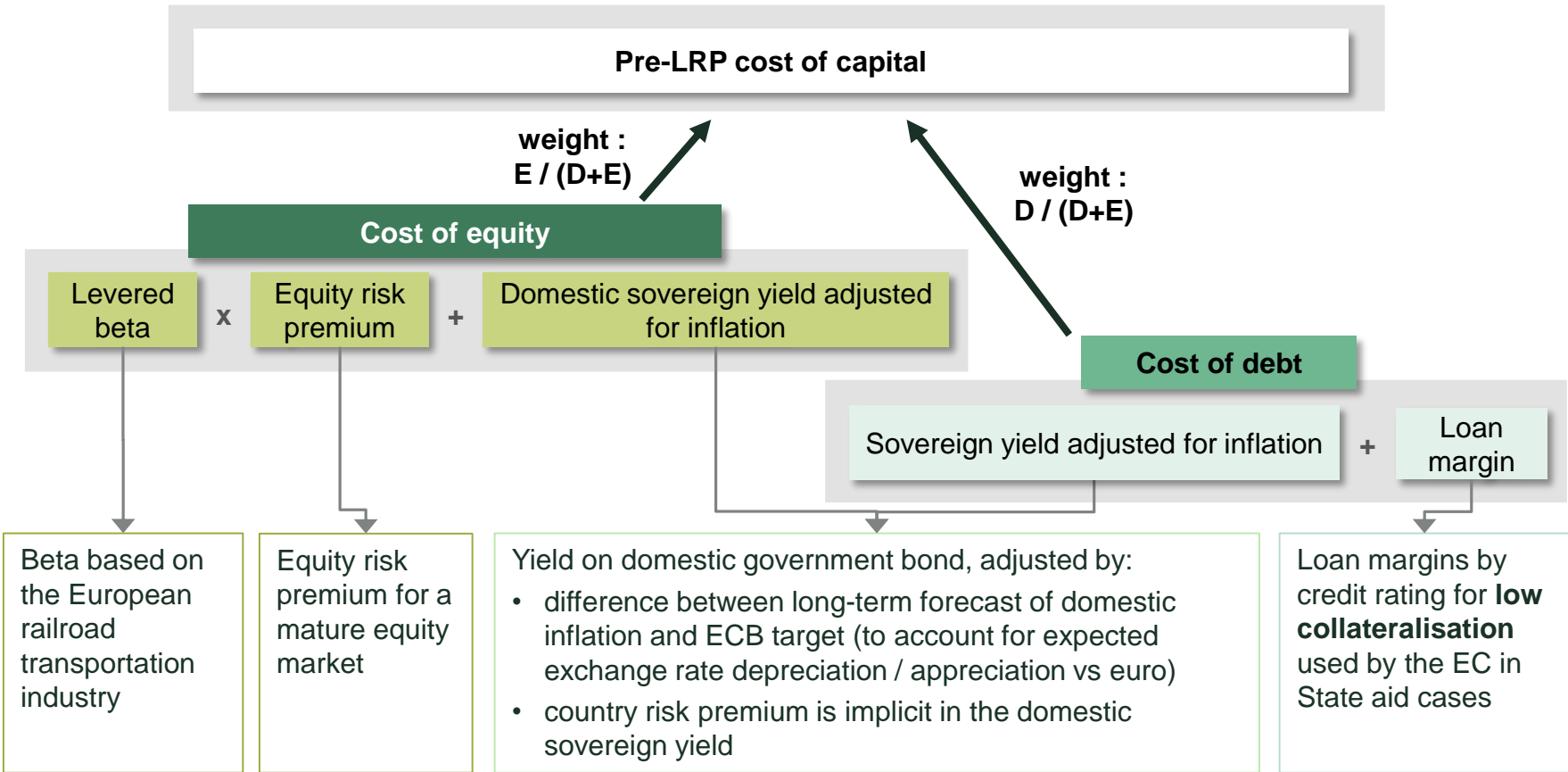
Rationale and methodology



¹ For Ukraine, over the assumed period of ten years, the catch-up effect resulting from the fleet's age is an additional fleet replacement of 1.4% per year.



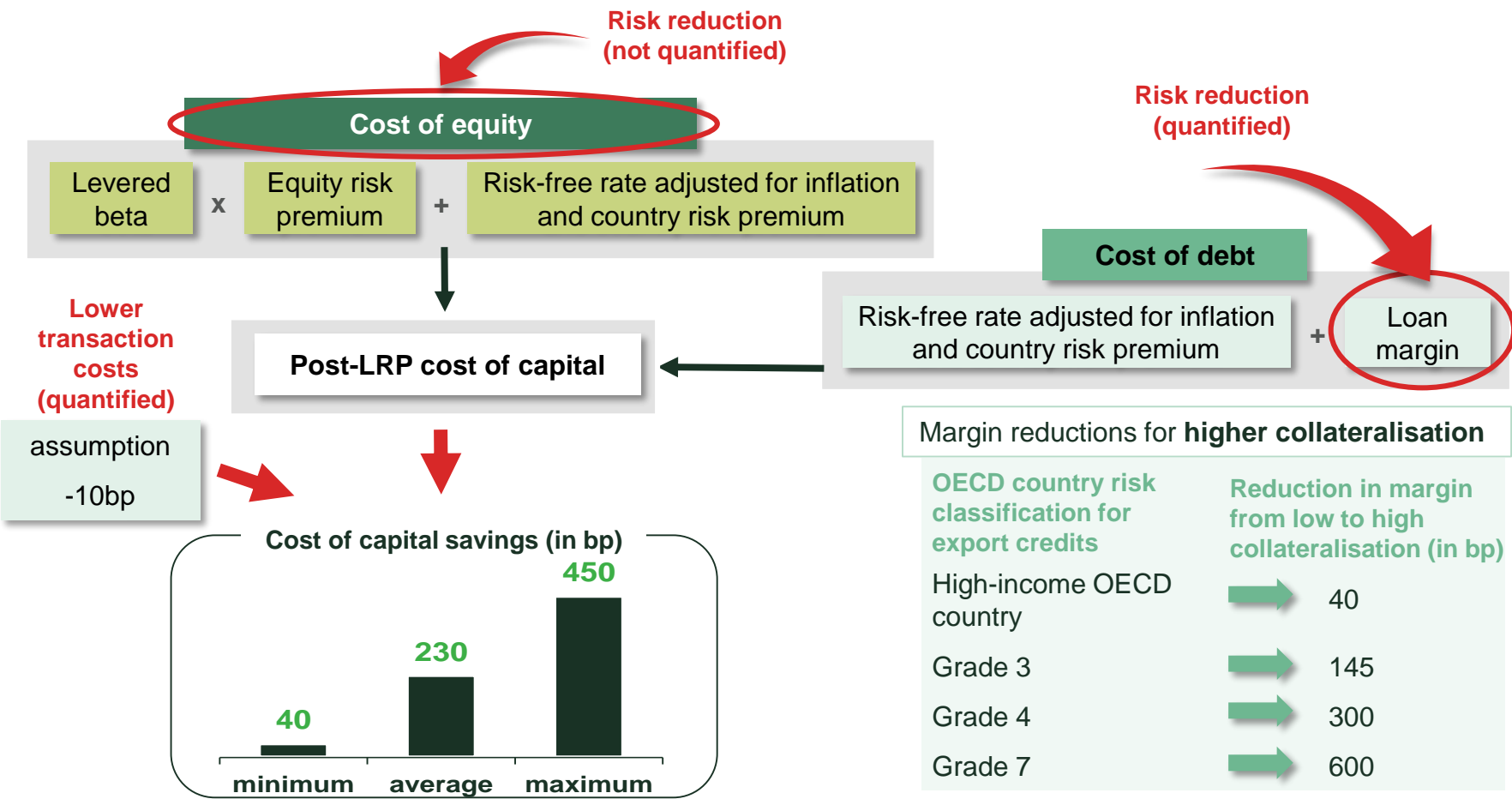
Step 2: pre-LRP cost of capital



¹ Due to data availability, the sovereign yield of Slovakia was used for the Baltic countries, and the yield of Turkey was used for Azerbaijan, Belarus, Georgia, and Kazakhstan. National inflation forecasts were used to adjust for inflation.

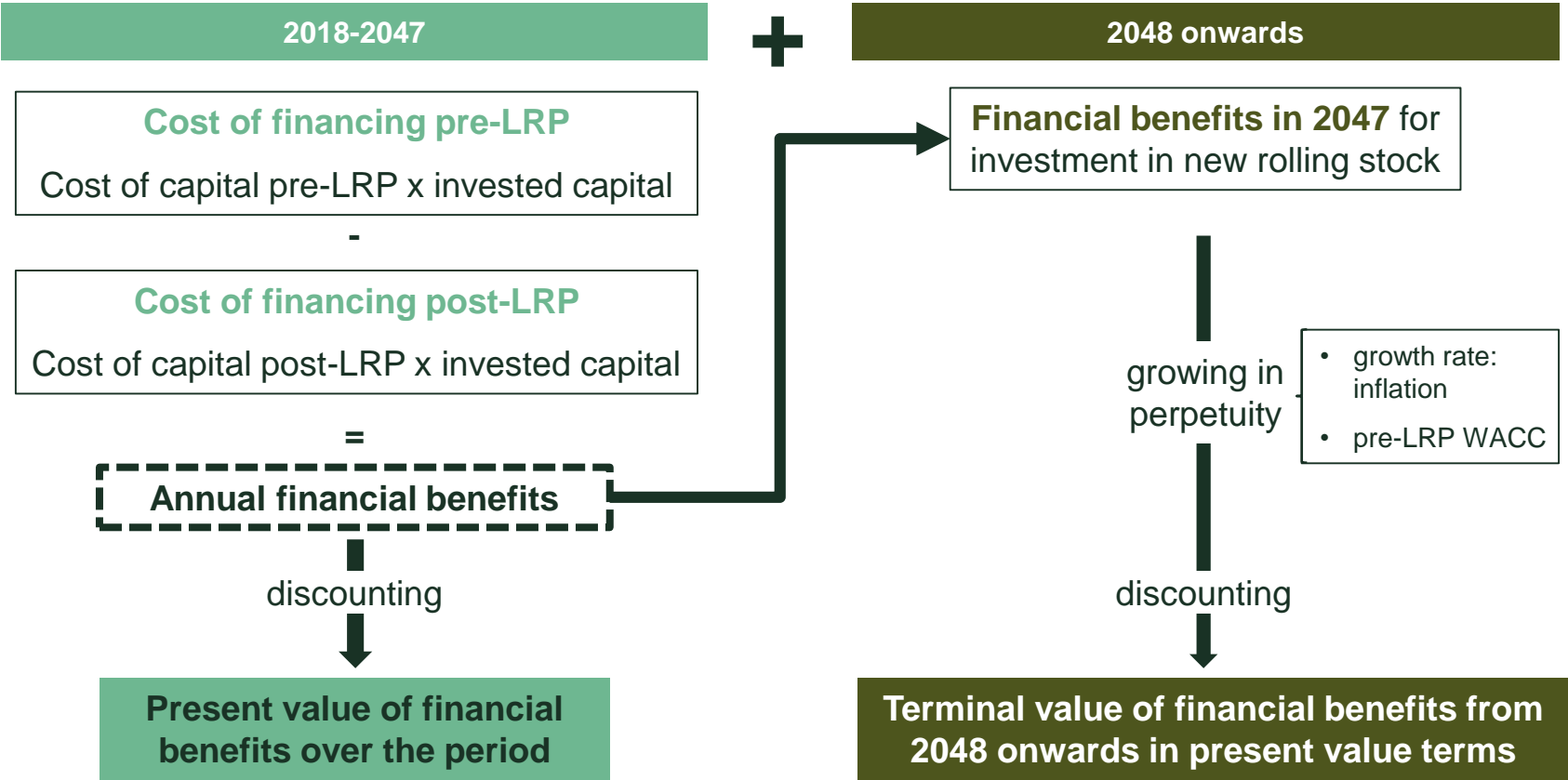


Step 3: post-LRP cost of capital





Step 4: Financial benefits



Country case studies

FINANCIAL BENEFITS

9 countries

**€13.9bn total
benefits**

Refinancing
24%



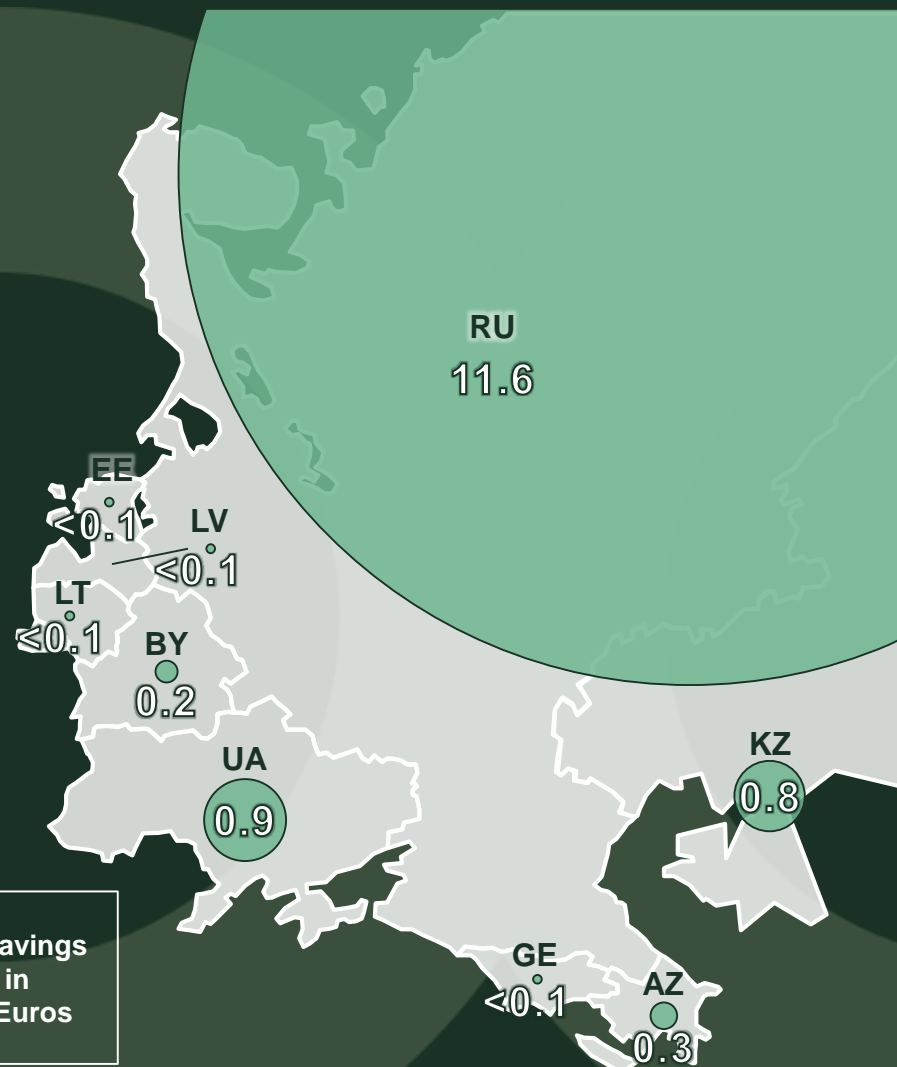
New deliveries
76%

Freight
51%



Passengers
49%

● Financial savings
by country in
billions of Euros



Country case studies 1/3

Present value of
total savings

€255m

€26 per 



 Passengers  Freight	
Present value of total savings	
€186m	€69m

Present value of
total savings

€188m

€20 per 



 Passengers  Freight	
Present value of total savings	
€132m	€56m

Present value of
total savings

€4m

€3 per 



 Passengers  Freight	
Present value of total savings	
€2m	€2m

Country case studies 2/3

Present value of
total savings

€33m

€9 per 



Present value of total savings	
 Passengers	 Freight
€21m	€13m

Present value of
total savings

€33m

€17 per 



Present value of total savings	
 Passengers	 Freight
€26m	€8m

Present value of
total savings

€16m

€6 per 



Present value of total savings	
 Passengers	 Freight
€12m	€4m

Country case studies 3/3

Present value of
total savings

€846m

€48 per 



 Passengers  Freight	
Present value of total savings	
€363m	€483m

Present value of
total savings

€11,606m

€80 per 



 Passengers  Freight	
Present value of total savings	
€5,659m	€5,947m

Present value of
total savings

€934m

€21 per 



 Passengers  Freight	
Present value of total savings	
€413m	€521m

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