

# Europe's transport industry seeks to derail tougher bank capital rules

The rail industry joins the chorus of opponents to the Basel Committee's proposed post-financial crisis reforms

By FIONA MAXWELL

Rail experts are warning that far-reaching global banking rules designed to make banks safer go against EU plans to grow the transport industry and will in turn hurt the bloc's economy.

The caution comes as crunch talks are being held on how to strengthen the capital rules surrounding the bloc's biggest banks, which are the subject of renewed market focus thanks to Deutsche Bank's current travails.

The transport industry's move follows months of pushback from European banks. In their fight against proposals from the Basel Committee on Banking Supervision known as Basel III, banks have often cited the potential impact on the "real economy" in arguing against holding more capital against loans.

Now, the real economy is speaking out.

The rail industry has taken particular grievance with the proposals. It feels that the EU impetus to modernize Europe's rail network should be an opportune moment for attracting the best financing deals from the private sector, but that Basel Committee proposals will stifle the initiative.

"This is in contradiction with the willingness to grow the industry," said Jean-Marc Servat, chairman of the European Association of Corporate Treasurers.



**The rail industry is hoping private financing will be encouraged by the Luxembourg Rail Protocol.**

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What worries the rail industry about the Basel proposals is how banks will be required to assess the amount of capital they should hold based on a client's riskiness. Banks currently rely on their own internal models to calculate their risk-weighted assets, which determine the institution's capital ratio. Instead, the Basel Committee wants to impose a standardized, regulator-set approach.

Opponents argue that this approach would result in banks having to hold more capital against lending. And if that happens, banks say they would have to hike fees that will ultimately be passed on to clients.

## RISKY ASSETS?

The rail sector is upset about such a possibility, because it argues loans for rolling stock — train engines and carriages — are stable assets with low default rates. Therefore, the amount of capital banks allocate to those loans

should reflect that.

More specifically, industry members say the Basel proposals clash with initiatives including Shift2Rail, which aims to reduce the costs of rolling stock and double railway capacity, as well as the EU's so-called fourth railway package.

"As we open up the market, it's inevitable we'll need more private capital to make that work — so [Basel proposals are] counterproductive, particularly at a time we're encouraging long-term investment," said Howard Rosen, chairman of the Rail Working Group.

The upshot of proposed rules, according to rail associations, would be banks having to double or triple the amount of capital they allocate to exposure to the industry, despite no increase in risk.

The fear is this will in turn deter banks from financing the rail industry, which rail groups argue is already meager. A January study by the Roland Berger consultancy showed that private financing for rolling stock amounted to just €1.7 billion between 2011 and 2013.

The rail industry is hoping private financing will be encouraged by the Luxembourg Rail Protocol. When it enters into force in the coming years it will apply to all rolling stock, making it easier and cheaper for the private sector to finance railway equipment.

But the Basel proposals conflict with this aim, argues the Rail Working Group.

"This Basel Committee is slamming the brakes and pushing the industry backwards, which is very negative. [The proposals] will have a significant restraint on the way the industry will develop in coming years," said Rosen.

EU regulators have taken note of

the industry's worries and seem to be taking its side.

## CALLING ON THE COMMISSION

The European Rail Industry Association (UNIFE) sent a letter to the European Commission's Vice President for Financial Services Valdis Dombrovskis in July, in which it warned of the "serious unintended negative consequences for the financing of the rail sector" and urged the Commission to raise the issue with the Basel Committee.

"The Commission has reassured us that our concerns will be taken into account" said Arturs Alksnis, public affairs manager at UNIFE. "Given the important role that banks have financing rail projects, if this affects the lending of the banks it would really have an impact on the real economy."

In an August response to another similar letter from the Rail Working Group, seen by POLITICO, Dombrovskis said the Commission is "fully committed to promoting sustainable long-term funding" for transport. He also said the group's letter would provide "valuable input" to the Commission's ongoing assessment of the potential adjustments to bank capital.

On September 29, Dombrovskis gave a speech in which he scolded the Basel Committee's proposals, saying they "could lead to significant capital requirement increases" of banks, despite the committee's pledge to the contrary.

Some Members of the European Parliament immediately slammed him for delivering a dissonant message at a time when fears of a cash crunch at Deutsche Bank highlighted just the kind of reforms that the Basel Committee is pursuing.

But Europe's rail industry was surely cheering him on.