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Space Economy - New models and economic approaches for private space ventures, with an emphasis on
the needs of emerging space nations (3)

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ASSET-BASED FINANCING: FINANCING THE SPACE ECONOMY OF THE FUTURE THROUGH
AN INTERNATIONAL SYSTEM OF SECURED TRANSACTIONS LAW, ONE SPACE OBJECT AT A
TIME.

Abstract

With the advent of NewSpace and the entry into the space sector of entities from emerging space economies, the space industry no longer only comprises of blue-chip AAA rated companies which have easy access to finance based on their creditworthiness or balance sheets. The industry has seen a large influx of start-ups and entrants which are small enterprises with new business models intended to derive a profit from using space applications or conducting space exploration.

Many such companies are based in emerging space economies and have products dependent upon the use of advanced and innovative technologies, often under development or in experimental stages which will be used in space to offer services to customers. This backdrop makes these companies attractive for private equity financing rather than traditional bank loans, more since private equity funding has become increasingly available due to the global economic and financial situation. Simultaneously, NewSpace companies are subject to both endogenous and exogenous risk factors; the latter often impacting them despite a solid business model. Lacking extensive already existing company assets, this situation demands new types of securities, which should be internationally enforceable. This paper will examine the option of asset-based financing, as facilitated by the Space Protocol of the Cape Town Convention, for such companies. The Space Protocol is an international treaty drafted to introduce an international system of secured transactions law to the space sector.

Asset-based financing allows companies to leverage their assets and attain finance by giving creditors rights in those assets. The benefit of asset-based financing is that where the debtor cannot repay its debt, the asset itself, or interests in the asset, may come under the ownership and/or control of the creditor. This possibility may be more appealing/useful for private equity investors, more likely to have an ownership interest in a project than a traditional bank. The Space Protocol ensures that a standard set of international rules apply to such secured transactions.

Besides looking at the financial model of asset-based financing, this paper will draw examples from other industries which have adopted this practice. It will also consider regulatory challenges asset-based financing poses, and mechanisms which the Space Protocol introduces to address them, including insolvency, repossession, and transfer of rights. It will illustrate examples of transactions, and will conclude by noting benefits, and the economic advancements which could be brought about by the adoption of this instrument.