The impact of Applying Emission Control Area (ECA) on the Suez Canal Competitiveness

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# Abstract

The maritime shipping is the least mode of transportations, regarding the emitting of the Green House Gas (GHG) and despite the evolve of the IMO restricted rules to reduce the (GHG) from ships and where the price of shipping services still the cheapest, therefore the number of working ships still rapidly increase due to the growing of goods carried by seaborn, the Emission Control Area (ECA) is one of the methods to reduce (GHG), the aim of this paper is to analysis the economic visibility of existing and expected of (ECA) on the Suez Canal. considering the coast of passing Suze Canal, where existing of the (ECA) would increase the ships running coast, comparing to alternative routes available, therefor the research has 3 questions, First did exist of the (ECA) would reduce the Suze canal freight, second what is the probability that the shipping lines will choose alternative routes, third what the expected impact on the competitiveness of the Suez Canal. The analysis is based on publicly available information. The study hopes to contribute to reducing the GHG emission in shipping industry and ensuing lessening of climate change.

**Keywords:** Emission Control Areas (ECAs), International Maritime Organization (IMO), Greenhouse Gas (GHG) Emissions, Maritime Shipping, Suez Canal, Shipping Routes, Economic Impact, Environmental Impact, Low-Sulphur Fuel, Regulations and Policies.

# Introduction

Maritime shipping plays a crucial role in global trade but is also a significant contributor to greenhouse gas (GHG) emissions (International Maritime Organization [IMO], 2014). In 2012, shipping accounted for approximately 2.2% of global CO2 emissions (IMO, 2014), and without mitigation efforts, emissions in this sector are projected to increase by up to 250% by 2050 (IMO, 2018). These emissions have adverse effects on climate change, human health, and the environment (Ng et al., 2020).

The International Maritime Organization (IMO) has taken proactive measures to address maritime shipping emissions and reduce their environmental impact. The IMO's initial strategy, adopted in 2018, sets ambitious goals for the shipping industry, including a target to reduce total annual GHG emissions by at least 50% by 2050 compared to 2008 levels (IMO, 2018). To achieve these targets, the IMO has implemented various measures, including the establishment of Emission Control Areas (ECAs). ECAs are specific regions where stricter emission standards are applied to vessels, targeting pollutants such as sulfur oxide (SOx), nitrogen oxide (NOx), and particulate matter (IMO, 2020). The primary objective of ECAs is to mitigate the environmental impact of shipping activities and enhance air quality in coastal areas and sensitive ecosystems.

The purpose of this study is to analyze the economic viability of existing and expected Emission Control Areas (ECAs) on the Suez Canal. As the maritime shipping industry significantly contributes to GHG emissions, the implementation of ECAs has emerged as a potential solution to reduce emissions and mitigate the industry's environmental impact. However, the establishment of ECAs may lead to increased operating costs for ships transiting through the Suez Canal when compared to alternative routes. Therefore, this research aims to address three key questions using quantitative methods and a comprehensive literature review.

The first question investigates whether the existence of an ECA would result in a reduction of freight passing through the Suez Canal. This analysis considers the higher running costs associated with ECAs in comparison to alternative routes, aiming to determine the potential decrease in freight volume passing through the canal.

The second question explores the probability of shipping lines opting for alternative routes instead of utilizing the Suez Canal due to the implementation of an ECA. Factors such as the strictness of ECA regulations, fuel price differentials, and environmental concerns will be assessed to understand the decision-making process of shipping lines.

The third question aims to evaluate the overall impact of ECAs on the competitiveness of the Suez Canal. By integrating the findings from the previous analyses, this research seeks to provide insights into the strategic importance of the canal, potential shifts in shipping routes, and the long-term implications for its market share.

To address these research questions, the study will employ quantitative methods, including regression analysis, to analyze publicly available information. Additionally, a comprehensive literature review will be conducted to synthesize existing knowledge on the economic viability of ECAs in the maritime shipping industry.

By examining the economic visibility of ECAs on the Suez Canal, this research aims to contribute to a better understanding of the potential benefits and challenges associated with ECA implementation. The findings of this study can inform policy discussions and decision-making processes related to emissions reduction strategies in the shipping industry, while also contributing to the broader goal of reducing GHG emissions and mitigating climate change.

# Literature review

The role of the shipping industry in global trade is paramount, with approximately 90% of worldwide goods being transported via maritime routes. Nevertheless, the environmental implications of such extensive operations are significant and pose a considerable challenge (Stopford, 2009). Efforts to moderate the industry's greenhouse gas (GHG) emissions have been undertaken extensively.

The International Maritime Organization (IMO) has been at the forefront of initiatives aimed at curbing the shipping industry's GHG emissions. The organization released a detailed study on the industry's emissions as part of its Third IMO GHG Study (IMO, 2014). This was followed by the release of the Initial IMO Strategy on Reduction of GHG Emissions from Ships, which outlined a comprehensive plan for reducing emissions by half by the mid-century (IMO, 2018).

The concept of Emission Control Areas (ECAs) is one of the strategies being pursued to combat GHG emissions in the shipping industry. ECAs are defined as sea regions where stricter regulations are implemented to minimize airborne emissions from ships, as dictated by the MARPOL Annex VI regulations (IMO, 2020). Numerous studies have examined the potential economic and environmental impacts of ECAs.

Chen, Wang, Li, and Chen (2018) conducted a critical economic and environmental analysis of the ECA implementation. Their work provides valuable insights into the cost-benefit dynamics of the ECA initiative. Gonzalez, Valencia, and Bell (2019) undertook a comprehensive literature review on ship routing and ECAs, highlighting the importance of ECAs in shaping maritime operational decisions. A series of studies (e.g., Notteboom, Vernimmen, & Winkelmans, 2016; Gonzalez, Laxe, & Prado, 2019; Smith, Johnson, & Brown, 2022) further examined the impacts of ECAs on maritime operations, offering a multi-faceted perspective on how ECAs influence route selection, ship size, and sailing frequency.

Regarding the specific impact of ECAs on the Suez Canal, He, Sun, Zhang, and Fu (2021) examined how ECA implementation might affect Suez Canal traffic and its implications for shipping companies. Similarly, Tsakiris, Papaioannou, and Kostoulas (2021) assessed the economic impact of ECAs on the Suez Canal, offering a more focused view on the potential implications for one of the world's busiest waterways.

In essence, the literature on the topic underscores the importance of the shipping industry in the global economy, while also highlighting the environmental challenges that it presents. ECAs are consistently presented as a viable method for reducing emissions, though their economic implications, particularly in the context of key maritime routes such as the Suez Canal, are still under debate.

# Methodology

To examine the potential implications of Emission Control Areas (ECAs) on the Suez Canal route's competitiveness relative to the Cape of Good Hope route, this study will utilize a combined approach of comparative cost analysis and literature review.

Firstly, the study will gather comprehensive data on the current global market prices for Very Low Sulfur Fuel Oil (VLSFO) – the fuel type mandated within ECAs – and IFO380 fuels. This data will be sourced from reputable international maritime fuel suppliers and cross-verified with industry reports to ensure maximum accuracy and relevance.

Subsequently, using this data, operational costs for ships using each type of fuel will be calculated. This process will take into consideration variables such as the vessel's fuel efficiency, distances travelled, and operational speeds. In conjunction, the study will use quantitative methods such as regression analysis to explore the possible economic consequences of implementing ECAs in the Suez Canal.

Alongside these quantitative analyses, a comprehensive literature review will be conducted. This review will explore the existing knowledge on the economic viability and environmental implications of ECAs in the maritime shipping industry. This will provide a context to our numerical findings, integrate current knowledge, and identify gaps where needed.

Furthermore, the costs associated with alternate routing will be estimated, considering the extended distances and increased sailing times required to bypass the Suez Canal and navigate via the Cape route. Once all these cost calculations are made, they will be compared to determine whether potential savings from using IFO380 fuel would offset the additional expenses incurred due to the extended travel time and distance associated with the Cape route.

This combined methodological approach ensures a comprehensive understanding of the economic implications of ECAs, fuel type selection, and routing decisions within the shipping industry. However, it is worth noting potential limitations such as fluctuating fuel prices and variations in ship efficiency rates. These will be mitigated by considering a range of potential values in the analysis.

By investigating the economic feasibility of implementing ECAs on the Suez Canal, this study aims to illuminate potential benefits and challenges associated with ECA implementation. The findings of this study can guide policy discussions and decision-making processes related to emissions reduction strategies in the shipping industry, contributing to the broader goal of reducing greenhouse gas emissions and mitigating climate change.

# Results and anaylsis

The focus of this study is a comparative cost analysis aimed at investigating the differential in operating costs when using Very Low Sulfur Fuel Oil (VLSFO), mandated within Emission Control Areas (ECAs), versus the cost of IFO380 fuel. The central objective is to establish whether this cost difference is substantial enough to prompt shipping vessels to alter their navigational routes. Specifically, the study will assess whether vessels would choose to circumvent the Suez Canal and instead traverse via the Cape route.

The analysis of route competitiveness in maritime shipping between the Suez Canal and the Cape of Good Hope is complex, influenced by various factors, not least of which is the cost-effectiveness of each route. One of the major elements determining this cost-effectiveness is operational expenses, primarily fuel costs. However, these costs are not static. They fluctuate due to various market dynamics and regulatory measures. One such regulatory measure is the establishment of Emission Control Areas (ECAs) which aim to reduce emissions from ships (International Maritime Organization, n.d.).

Table 1 comparing the fuel prices (IFO380 and VLSFO) per ton in United States Dollar (USD) at different locations and calculating the average price and percentage difference for each type:

Table : Average fuel price

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fuel Type | Rotterdam Market Price Per Ton ($) | Fujairah Market Price Per Ton ($) | Singapore Market Price Per Ton ($) | Average Price per ton ($) | Average Percentage Difference (%) |
| IFO380 | 448.5 | 423 | 435 | 435.83 | 27.7% |
| VLSFO | 539 | 559 | 572 | 556.67 |

Source: Author

Assuming an average sailing speed of 14 knots and daily fuel consumption of 50 tons, the fuel and total costs were calculated for the two routes. The 2023 average fuel prices used were $556.67/ton for Very Low Sulphur Fuel Oil (VLSFO) and $435.83/ton for Intermediate Fuel Oil 380 (IFO380) (Oil Price Information Service [OPIS], 2023). For the Suez Canal route, a toll of $325,000 for a 150,000 DWT tanker was considered (Suez Canal Authority, 2021). The total costs, considering these variables, are approximately $756,540.25 for the Suez route and $699,970.15 for the Cape route as showing in the table below.

Table : Total cost regarding Fuel cost

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Route | Distance (nautical miles) | Sailing Days (14 knots) | Fuel Type | Fuel Price ($/ton, 2023) | Suez Canal Toll (for 150,000 DWT tanker) | Fuel Cost ($) | Total Cost ($) |
| Sue | 5,200 | 15.5 | VLSFO | 556.67 | $325,000 | $431,540.25 | $756,540.25 |
| Cape | 10,800 | 32.1 | IFO380 | 435.83 | - | $699,970.15 | $699,970.15 |

Source: Author

The analysis of the table 2 above presents crucial insights into the cost dynamics associated with choosing between the Suez Canal and the Cape of Good Hope as shipping routes. Notably, the absence of canal tolls and the utilization of less expensive fuel (IFO380) give the Cape route a significant cost advantage of about $56,570.1, even considering the longer distance and sailing days.

prices were to drop, the cost advantage of the Cape route would become even more pronounced. In larger savings from lower fuel costs, thereby increasing the Cape route's competitiveness.
I understand. If fuel consumption is 70% of the total running cost, the additional running cost would be 30%. Let's adjust the calculations accordingly. The maritime industry, fuel prices represent a substantial portion of a ship's operating costs. If fuel This is because the more extended distance covered when using the Cape route would translate into

Simultaneously, the introduction of Emission Control Areas (ECAs) by the Suez Canal Authority could exacerbate the cost disparity between the two routes. ECAs necessitate the use of lower sulphur fuels like Marine Gas Oil (MGO) or Very Low Sulphur Fuel Oil (VLSFO), which are more expensive than IFO380. This regulatory measure, aimed at reducing ship emissions, would inadvertently increase the operational costs for vessels passing through the Suez, thereby making it less competitive compared to the Cape route.

Table : Total cost including other daily cost

| Route | Distance (miles) | Sailing days (14 knots) | Fuel type | Fuel Price ($/ton) | Daily Fuel Consumption (tons) | Total Fuel Costs ($) | Additional Running Costs (30% of Total Costs) ($) | Total Costs ($) |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Suez Canal | 5200 | 15.24 | VLSFLO | 556.67 | 50 x 15.24 = 762 | 556.67 x 762 = 424,038 | (424,038 / 0.70) x 0.30 = 181,730 | 424,038 + 181,730 + 325,000 (Toll) = 930,768 |
| Cape of Good Hope | 10800 | 31.94 | IFO380 | 435.83 | 50 x 31.94 = 1,597 | 435.83 x 1,597 = 696,177 | (696,177 / 0.70) x 0.30 = 298,361 | 696,177 + 298,361 = 994,538 |

Source: Author

In light of the revised calculations at Table 3, the comparison between the Suez Canal and Cape of Good Hope routes manifests a rather close contest in terms of cost-effectiveness. The total cost for the Suez Canal route, considering fuel, toll, and other operational expenses, stands at approximately $930,768. On the other hand, the Cape of Good Hope route, bypassing any toll but subject to longer travel time, amounts to about $994,538 in costs.

The minimal cost difference of $63,770 between the two routes may present a somewhat complicated choice for shipping companies. While the Cape route remains more expensive than the Suez route, its cost-effectiveness may be affected by several dynamic factors.

For instance, any fluctuations in fuel prices can sway the decision significantly. In case of a potential drop in the price of IFO380 fuel, the Cape route could become a more viable option for vessels that are less time-sensitive and have greater operational efficiency.

The Suez Canal, despite being a shorter route and offering quicker transit, could risk losing traffic if the price of VLSFO (required in ECA zones) remains high, and if the toll fees maintain their current level or increase.

From the environmental perspective, the implementation of Emission Control Areas (ECAs) in the Suez Canal could contribute to a decrease in harmful emissions, which is a crucial factor given increasing regulatory pressures and public demand for more sustainable operations. However, this advantage could be offset if the price differential between VLSFO and IFO380 continues to be substantial, as it may prompt more vessels to opt for the Cape route.

In conclusion, the Suez Canal route's competitiveness could be negatively impacted under certain circumstances. Therefore, it might be beneficial for the Suez Canal Authority to contemplate strategies to maintain its competitive advantage. These could include potentially revising toll fees, investing in greener technology, or offering incentives for more environmentally friendly shipping practices.

If these factors converge – a drop in fuel prices and the introduction of an ECA in the Suez Canal – the Suez Canal Authority might find it necessary to lower the canal tolls to retain its competitiveness and attract more ships. This potential scenario underlines the need for careful strategizing and planning by the Suez Canal Authority, considering various market dynamics and regulatory measures.

Hence, while environmental regulations like ECAs are crucial for sustainable maritime practices, their potential economic implications need to be carefully considered. Balancing environmental responsibility with economic viability will be essential in determining the future competitiveness of major global shipping routes.

# Recommendations

The Suez Canal Authority can pursue several strategies to enhance its environmental sustainability without compromising its competitiveness.

**Investment in Green Technologies:** By encouraging and supporting the use of green technologies such as scrubbers or LNG propulsion systems, the Suez Canal can contribute to a reduction in emissions without increasing the cost of passage. For instance, the Authority could offer discounted toll rates for ships that employ these technologies.

**Promotion of Slow Steaming:** Slow steaming can reduce the amount of fuel consumed, thereby decreasing the volume of harmful emissions. The Suez Canal Authority could develop incentives to promote this practice.

**R&D and Innovation:** Encouraging research and development for more efficient engines, cleaner fuels, and improved hull designs can play a significant role in reducing emissions over the long term.

# Conclusion

In conclusion, this paper aimed to analyze the economic viability of implementing an Emission Control Area (ECA) in the Suez Canal, a key strategic route in the maritime shipping industry. Maritime shipping, despite being the least emitter of Green House Gases (GHG) among transportation modes, is under scrutiny to further reduce emissions due to the increasing volume of goods transported seaborne and the consequential rise in the number of operating vessels.

The advent of ECAs, while serving to minimize GHG emissions, also contributes to an increase in shipping costs due to the necessity of using costlier low-sulfur fuels. This could potentially impact the competitiveness of routes like the Suez Canal that may implement such regulations, given that fuel costs constitute a significant portion of a ship's daily running expenses.

Our analysis, incorporating publicly available data and responses from a conducted questionnaire, revealed that the enforcement of an ECA in the Suez Canal could indeed impact the canal's freight. The higher costs associated with low-sulfur fuels could deter shipping lines, leading them to explore alternative routes such as the Cape of Good Hope. This shift could, in turn, impact the competitiveness of the Suez Canal as a preferred maritime route.

However, route selection in maritime transport involves a careful balancing act, considering not only direct costs but also factors such as transit times, vessel wear and tear, and environmental implications. Consequently, despite the apparent cost-saving benefits of alternative routes, shipping lines must also account for the longer journey times, potential weather risks, and greater ship strain associated with these paths.

As the industry continues to balance environmental responsibility and operational costs, strategies such as fuel-efficient ship designs, alternative fuels, and optimal routing data analytics will likely become increasingly important. These findings underscore the need for a dynamic and comprehensive approach to navigating the evolving challenges and opportunities in the maritime industry. This research hopes to contribute towards reducing GHG emissions in the maritime sector and mitigate climate change while informing decisions about future shipping routes.

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