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IMEC: A New Option to the Suez Canal and Asia-Europe Connectivity

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EXECUTIVE SUMMARY

The India-Middle East-Europe Corridor (IMEC) was announced at the G20 Leader's Summit in Delhi in September 2023. The IMEC's members include the European Union (EU), France, India, Italy, Germany, the United Arab Emirates (UAE), Saudi Arabia, and the United States (US).

The Corridor has been designed to transport goods between India and Europe by a combination of sea and land. The sea routes extend from India's west coast to the UAE and Saudi Arabia, and from Israel to Greece and Italy. The routes are to be linked by railways running from the UAE and Saudi Arabia to Jordan and Israel.

The IMEC's multimodal connectivity character is complemented by its geo-economic and geo-political significance. Besides its vital economic geography that conditions critical global energy and non-oil commodity trades, the IMEC is also a response to China's Belt and Road Initiative (BRI) by the US and its political allies.

The proposed corridor can be an efficient alternative to the Suez Canal, which is the shortest route for shipping goods from India to Europe. Recently, the Canal has become congested and prone to frequent disruptions, including those caused by military attacks, which have raised the cost of shipping with carriers having to take longer routes.

Container vessels, which dominate the traffic in the Suez Canal, will find it easier to switch to the IMEC as their cargo is well organised for multimodal transit. Bulk carriers and oil tankers, on the other hand, will find the transition more difficult.

The IMEC should be expeditiously concluded, as disruptions in the Suez Canal do not augur well for global trade. The IMEC members must put in place mechanisms for ensuring secure passage of cargo through the Corridor. The Corridor also needs to institute efficient loading and unloading practices for encouraging all vessels to use its multimodal facilities.

INTRODUCTION

A new multimodal connectivity project for moving goods from India to Europe through the Middle East was announced at the G20 Leaders' Summit in New Delhi. Christened the India-Middle East-Europe Economic Corridor (IMEC), the connectivity plan aims to transport goods from India to Europe through the Middle East by a combination of water and land routes.

The project 'is expected to stimulate economic development through enhanced connectivity and economic integration between Asia, the Arabian Gulf, and Europe.' The core objective of the IMEC is to achieve greater efficiency in transportation by lowering the costs. The ambition needs to be viewed in the context of the Suez Canal—currently the shortest and most popular route for transporting goods from India to Europe—which has become an increasingly inefficient and difficult route. Various problems in transit through the Suez Canal are resulting in long delays and higher shipping costs, generating inefficiencies for several critical supply chains.

This policy brief studies the features of the IMEC, along with the difficulties being faced by businesses when transporting goods via the Suez Canal. It also discusses the prospects of the IMEC in emerging as an efficient alternative to the Canal.

KEY FEATURES

The India-Middle East-Europe Economic Corridor (IMEC) was launched by eight members of the G20 grouping at the G20 Leader's event on the Partnership for Global Infrastructure and Investment held in New Delhi, India, on September 9, 2023. The launching members include the European Union (EU), France, Germany, India, Italy, Saudi Arabia, the United Arab Emirates (UAE), and the United States (US). The members greeted the launch with great enthusiasm, with US President Joe Biden describing the IMEC as a 'game-changing investment' and the European Commission President Ursula von der Leyen calling it a 'historical breakthrough.' The Indian Prime Minister Narendra Modi highlighted the Corridor's significance by emphasising its critical role in promoting economic integration between India and Europe.

The IMEC has three distinct parts to it. The eastern maritime corridor will connect India and the Middle East through the Arabian Gulf, also commonly known as the Persian Gulf. Beginning from the west coast of India, the IMEC will advance across the Arabian Sea to West Asia and the Middle East connecting ports in India to those in the UAE and Saudi Arabia. A rail route through the Middle East will connect the UAE and Saudi Arabia to Jordan and Israel. Finally, the northern maritime corridor will extend from Israel westward, through the Mediterranean Sea, connecting to ports in Greece and Italy, and further to France and Germany.

Multimodal transit is the key feature of the IMEC. It combines two shipping routes with a rail route in between. The IMEC vision document also mentions the Corridor laying down electricity cables and building pipelines for transporting clean hydrogen. Furthermore, the project plans to enhance digital connectivity among the regions of Asia and Europe it will link.

Another noteworthy feature of the IMEC is its geo-economic significance. The IMEC members are among the world's major powers and largest economies. They are economically connected to each other through strong trade and investment relations, and their industries and businesses are part of various significant global supply chains (e.g., semiconductors, automobiles, pharmaceuticals, hydrocarbons, and food). The IMEC's economic geography centres on the Middle East, which is the largest source of global energy supplies. The IMEC members include two of the world's major energy sources—the UAE and Saudi Arabia—and some of the world's largest energy-consuming economies, such as the US, India, and Germany. The criticality of ensuring stable supplies for essential products has become an imperative for the IMEC members following the Russia-Ukraine conflict that adversely affected global energy and food supplies and raised their prices. In this regard, having access to a safe and secure corridor for transportation between Asia and Europe is a high geo-economic priority.

Finally, the IMEC has a pronounced geopolitical significance. In the wider context of infrastructure development for connecting Asia and Europe, the IMEC represents an effort by the US and its strategic allies to provide an alternative to China's Belt and Road Initiative (BRI). The effort is inspired by historical connections, specifically the ancient spice trading route that linked India with Europe through the Middle East by land and sea. From India's perspective, the IMEC also complements the country's deepening strategic engagement with the Middle East (e.g., the UAE, Saudi Arabia, Israel), Europe (e.g., France, Germany, Italy, Greece) and the US.

PROBLEMS IN THE SUEZ CANAL

The Suez Canal is one of the world's five busiest shipping routes. The Canal is in Egypt and connects the Mediterranean Sea and the Red Sea. It is the shortest route for moving goods from Asia to Europe and vice versa. After the Panama Canal—the main route for shipping goods between Asia and both US coasts—

the Suez Canal has emerged as an additional, man-made artificial water transport route for efficiently moving goods from countries bordering the Indian Ocean to the continent of Europe. Presently, the Suez Canal accounts for 12-15% of global maritime trade and 25-30% of global maritime traffic. A large variety of diverse ships carry cargo through the Suez Canal. These include container ships, tankers, bulk carriers, general cargo ships, LNG ships, car carriers, and passenger ships.

Notwithstanding its appeal as a shipping route, the Canal has become a major source of concern for countries and businesses due to the higher costs that are incurred by taking this route. In particular, it has emerged as a major choke point for the movement of cargo between Asia and Europe.

The first instance in recent years of shipping costs rising sharply in the Suez Canal was when 'Ever Given'—a Taiwan-based 400-meter-long container ship—got stuck in the Canal sideways in March 2021, disrupting traffic both ways. Container ships were forced to wait in the long queue of vessels that piled up in both directions. Several vessels also had to reverse course by taking a much longer route, via the Cape of Good Hope along South Africa's Atlantic coast, to reach their respective destinations in Asia and Europe. For ships waiting in the queue and those taking the longer route, operating expenses rose sharply, resulting in an overall increase in global shipping industry costs, estimated at more than $50 billion.

The traffic logjam was a stark reminder of the mobility problems that large container ships carrying heavy cargo can face while passing through the Canal and the impact that traffic immobility in the Canal can have on shipping costs and the smooth functioning of global supply chains. Given that the Suez Canal is a crucial point for transporting large amounts of global crude oil supplies, petroleum products, LNG, and dry cargo like food grains, the impact of container immobility in the Canal on global essential commodity supplies and their prices can be disastrous.

The latest example of traffic disruption in the Suez Canal is a series of attacks on international shipping, carried out by the Houthi militant group. The attacks led by Yemen-based and Iran-aligned Houthi, arguably in support of Palestinians in Gaza, have again led to the rerouting of containers to the longer route via the Cape of Good Hope. Since the beginning of the attacks in early December 2023, both the number of containers passing through the Suez Canal and the volume of cargo transported have declined sharply. Taking the longer route has meant that shipping times have increased by 9-17 days. For those shipowners who have continued to use the Suez Canal despite the attacks, costs have increased in terms of much higher insurance premiums.

Even before the Houthi attacks began, the global shipping industry and supply chain managers were disturbed over the increase in transit fees announced by the Suez Canal Authority. From 15 January 2024, transit fees for the northbound traffic, i.e., traffic moving from Asia to Europe, have increased by 15%. The increase has taken effect at a time when costs have risen significantly for the container operators. The latest increase in freight rates comes a year after the transit fees were hiked by 15% by the Canal Authority from 1 January 2023.

CAN THE IMEC BEAT THE SUEZ CANAL?

The Suez Canal is currently the most active shipping route for moving cargo from India to Europe and vice versa. The time taken for goods to be shipped, for example, from the Mundra port on India's west coast to the Venice port in Italy through the Suez Canal, is over a month. The IMEC—through its multimodal option for transit—can significantly reduce both the time and cost of transportation, presenting itself as an alternative to the Suez Canal.

As explained earlier, the IMEC will be combining shipping and rail transits for transporting goods in a shorter time. By providing a multimodal option for transit the IMEC is looking to cut time and cost and therefore become a more cost-efficient option than the Suez Canal. Its multimodal feature stands in sharp contrast with the Suez Canal's unimodal character of transportation by water. Nonetheless, apart from being a shorter route, the Suez Canal has been popular with shippers who prefer to avoid the hassles and costs of unloading and re-loading cargo on to a different mode of transit, such as rail in the case of IMEC. Therefore, to become a substantially superior transit alternative to the Suez Canal, the IMEC will have to ensure that shifting cargo from one mode to another is as easy and as simple as possible.

For goods moving from India to Europe, the shippers will need to shift their cargo twice. The first shift—from water to land—will be at the designated IMEC ports in the UAE (e.g., Jebel Ali, Abu Dhabi, Fujairah) and Saudi Arabia (e.g., King Abdul Aziz, or Dammam, Ras-Al-Khair). Here, cargo brought in from ports on India's west coast (e.g., Mumbai, Mundra and the upcoming Vadhvan port) through the Arabian Sea will have to be re-loaded on to rail containers for travelling northward to Jordan and Israel. The second shift—from land to water—will occur in ports in Israel, primarily the Haifa port, where the cargo brought in by rail, will be offloaded and re-loaded on to containers travelling further north to Greece and Italy through the Mediterranean Sea. The degree of ease in shifting cargo from one mode of transportation to another will depend upon the nature of the cargo and its carrier. The challenges involved in this regard can be understood better by checking the kind of goods and vessels that go through the Suez Canal.

Going back to traffic through the Canal just before the global onset of the COVID-19 pandemic in December 2019, container ships accounted for 28.47% of ships passing through the Suez Canal, followed by oil tankers (27.35%) and bulk carriers (22.25%). The volume of cargo carried by the container ships was 52.7% of the total cargo moved, much higher than that by tankers (19.73%) and bulk carriers (13.21%).

The Suez Canal is certainly a popular option for container ships moving goods from India to Europe. However, these ships are also better equipped for switching cargo from one mode of transit to another. Containers are specifically designed for facilitating intermodal transit. The standardisation in design and storage patterns between these vessels makes transferring of both perishable (e.g., food products) and non-perishable (e.g., cars, electronic products) cargo across various modes of transportation, like between ships, trains and trucks much easier.

Given that the IMEC will bring down transportation time, it is going to be an attractive option for containers that are currently moving goods from India to Europe. A lot of the current container traffic through the Suez Canal is likely to change route and switch to the IMEC upon completion.

While containers will find the switch easy, it might not be the case for bulk carriers and oil tankers. Bulk carriers transport loose cargo—such as grains, mineral ores, coal, and wet cargo like liquid chemicals—in large quantities. These cargoes are directly loaded into the holds of ships. Unloading these cargoes and reloading them on to rails could be a significant challenge, as it will require the use of specific machines and trained staff and could be a time-intensive process. The same challenge will arise for liquid cargo like crude oil, refined petroleum products (e.g., diesel, petrol, aviation turbine fuel) and LNG. The IMEC does propose to have energy pipelines for transportation of liquid energy products like crude oil, petroleum, and hydrogen. However, they will need to be switched efficiently from one mode to another at competitive loading and handling costs for transporters.

POLICY RECOMMENDATIONS

A major transit route like the Suez Canal experiencing choke points and becoming prone to frequent disruptions is bad news for global trade. It is important to locate alternative routes for efficient transportation. The IMEC is a possible alternative and hence, it should be expeditiously constructed.

If the IMEC can cut shipping time and costs compared with the Suez Canal, then it will reduce the current congestion in the Suez Canal. This will be good for the latter too. With a significant part of the Canal's container traffic moving to IMEC, the Canal's transit efficiency will also increase. The prospect of the Suez Canal and the IMEC competing is a welcome one for shippers, as they will have additional choices.

The IMEC's specific advantage consists in it being a transit route that is safer and more secure. Disruptive developments, such as the Houthi attacks that are currently targeting traffic in the Red Sea, should not occur in the IMEC. The IMEC members must reach an understanding to provide collective security for safe and secure transit of goods through the Corridor.

The IMEC must also ensure that it becomes a preferred choice for tankers and bulk carriers. In this regard, its rail and shipping transit points must ensure efficient loading and unloading facilities that are convenient for tankers and bulk carriers.

The IMEC's multimodal connectivity vision also includes a digital aspect. Digital connectivity should be hastened with state-of-the-art trade facilitation making the IMEC a distinctly superior and efficient transit option to the Suez Canal.

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