The Effects of Carbon Mechanism on Supply Chain Costs and Inventories

Thina Ardliana1, 2, a, I Nyoman Pujawan2, b, Nurhadi Siswanto2, c

1 Design and Manufacturing Engineering

Politeknik Perkapalan Negeri Surabaya

Surabaya, 60111, Indonesia

2 Department of Industrial and Systems Engineering

Institut Teknologi Sepuluh Nopember

Surabaya, 60111, Indonesia

corresponding author: a) ardlianathina@gmail.com, thina.ardliana@ppns.ac.id, b) pujawan@gmail.com, c) siswanto@ie.its.ac.id

**Abstract.** At present, the effect of global warming is at a critical point and has threatened the destruction of ecosystems on earth. The most dangerous cause of global warming is carbon. This issue makes countries in the world seriously committed to focus on reducing carbon emissions. The commitments are binding on each country so that they have different permitted carbon capacity limits. Transportation is one of the biggest contributors to emissions in supply chain activities. The transportation problem must be examined simultaneously with the inventory decisions to minimize total costs and carbon emissions. To date, there has been no research that proposes a model involving problem of multimodal long distance transportation from the origin depot (factory) to the destination depot (customer) with regard to carbon emissions. The model proposed in this study integrates the inventory problem and the combination of multimodal land transportation with long distance shipping routes from the factory to the customer by considering the effects of carbon emissions in supply chain activities. The transportation modes considered in this study are trucks and trains as long haul transportation. The purpose of this model is to observe the impact of applying carbon emission on the decision variables. The changes in the parameters of emissions regulations affect the amount of emissions produced, the total system costs, and the amount of inventory both at the factory and at the station.

1. Introduction

Carbon emission is defined as the total amount of carbon dioxide gas (CO2) produced. Then, the carbon emission is also categorized as a greenhouse gas (GHG). The ideal composition of CO2 in the clean air should be at the level of 314 ppm. If the amount of carbon emissions in the atmosphere is excessive, it will increase the air pollution and cause a greenhouse gas effect (Kirby, 2008). The IPCC (2006) stated that there had been an increase of 70% in GHG emissions from 1970 to 2004, and the most of the GHG elements is CO2. The increase of GHG is caused by three main sectors: energy, transportation, and industry.

In previous studies, the correlation between costs and emissions is inversely proportional. For example, with respect to the carbon cap, the more lenient the carbon limit is given, the lower the cost, but the higher the carbon emissions produced. Therefore, optimization is needed between these two variables in terms of looking for a trade-off. The higher the emissions produced, the more costs are spent to reduce them in order to achieving the theoretical goal: zero emission. Several regulatory mechanisms have been issued related to carbon emissions policies: carbon cap (the regulation of carbon emission capacity permitted by a company) and carbon tax (this regulation is given by the state by giving tax sanctions on the amount of emissions produced company) (Benjaafar et al., 2010).

Benjaafar et al. (2010), Hua et al. (2011), and Hammami et al. (2015) have conducted research in the area of inventory by considering carbon emissions. In addition, Hoen et al. (2011), Pan et al. (2013), Jin et al. (2014), and Mohammed et al. (2017) have conducted researches related to the selection of transportation modes that consider carbon emissions. If the inventory and the transportation mode selection decision are combined and make the carbon emissions as a key consideration, it is expected to minimize costs as well as carbon emissions in supply chain activities (Konur, 2014; Konur & Schaefer, 2014; Palak et al., 2014; Tang et al., 2015 and Schaefer & Konur, 2015).

Some other studies have integrated the inventory and transportation decisions in one mode (Konur, 2014; Konur & Schaefer, 2014; Palak et al., 2014; Schaefer & Konur, 2015; and Tang et al., 2015). However, those researches only used truck with various variations such as Full Truck Load (FTL) and Less than Truck Load (LTL). From the previous studies about the integration of inventory management and the selection of long-distance multimodal transportation can be concluded that there is no comparison about the combination of the various modes of land transportation from the depot of origin (factory) to the destination depot (customer).

Therefore, this research is trying to bridge this issue. Besides, to date, no one has developed the optimization model which involves the integration of inventory and land transportation by considering the parameters of carbon to minimize the total cost of the system. the modes of land transportation. Therefore, the purpose of this research is to optimize the total costs related to transportation and inventory by considering the carbon cap limitation. Then, the research problem is how to make the model to optimize the total costs related to transportation and storage considering carbon emission mechanism. The optimization model is based on Mix Integer Linear Programming (MILP) approach.

1. Problem, Method and Model

The model development for land multimodal is carried out in a long delivery radius. The types of multimodal used are trucks and trains. The manufacturer (factory) is categorized as a supplier because it delivers solid raw materials such as cement, fertilizer, chemicals, and others. This research uses a single product. There are several factories (multi suppliers) sending their products to the station with various distances and locations. This condition will lead differences in the total shipping costs and emissions produced. The production capacity of each factory is different, causing the difference in the number of shipments. The capacity of trucks to ship from the factory to the initial terminal is assumed to be the same because it uses the same truck. Transportation costs from the factory to the station differ depending on the location of the supplier.

In one planning horizon, the factory will send a number of products according to the number of customer requests to the station warehouse. The delivery uses truck mode. If there are remaining products that are not transported, they will be stored in the factory warehouse and become inventory in that period. The products will be sent to the station until the product quantity reaches the maximum capacity for long haul transportation (train) mode. At the initial station or the destination station, the solution obtained can store products (inventory) to get cost and emissions optimization.

The concept of mathematical modeling consists of inputs which have objective functions, decision variables, and constraint functions, which will produce an output. The decision variables in this modeling are the number of orders, the number of inventory, and the frequency of shipments. Outputs are generated to minimize total transportation costs, total inventory costs, total fixed order costs and total carbon emissions costs. In addition, it will minimize the amount of carbon emissions generated in all supply chain activities.

The following is a mathematical model of this research:

= Z1 (1)

(2)

, (3)

, (4)

(5)

(6)

(7)

, (8)

The equation (1) is the objective function for carbon cap mechanism. The goals are to minimize cost for the transportation, inventory and fixed order. The goals are to minimize cost for the transportation, inventory, fixed order and carbon emission tax. Equation (2), (3) and (4) are the inventory balance at supplier, initial station and final station. Equation (5), (6), (7) are warehouse capacities at supplier, initial station and final station. Equation (8) is carbon cap constrain.

1. Experiments, Results and Discussions

In this study, seven experiments were carried out using the carbon capacity parameter. These parameters are 1140, 1150, 1160, 1170, 1180, 1190 and 1200. The purpose of this experiment is to determine the magnitude of the impact of changing carbon capacity on total supply chain costs and the amount of supply chain emissions. Supply chain costs include factory setup costs, inventory costs, and transportation costs. Total supply chain emissions include emissions at factories, emissions from trucks and trains, emissions from inventory at stations and factories.

**Figure 1.** The Effect of Carbon on Supply Chain Emission and Cost

In the experiment, the results showed that the higher carbon capacity parameters, the lower the supply chain costs. Conversely, when this parameter increases, the amount of supply chain emissions will also increase, approaching the carbon capacity limit set. The carbon allowance assigned to supply chain activities in a company has a significant impact on the cost efficiency of its supply chain. But on the other hand, the number of emissions has also increased. Although the percentage increase in emissions is not too sharp when compared to the reduction in costs. The trade off between supply chain costs and the resulting emissions creates optimal conditions in order to provide benefits for these two factors.

In another experiment, the effect of limiting the allowable carbon capacity had a significant impact on the amount of inventory at the factory and at the station. In graph 2 it can be seen that when carbon capacity is relaxed, the total inventory at the plant significantly decreases. In contrast to the total inventory at the two stations, the higher the carbon capacity, the higher the inventory at the station.

**Figure 2.** The Effect of Carbon on Inventories

This shows that modeling provides optimal solutions to the system. Long-distance transportation costs by train are more expensive, when compared to inventory costs at the factory. As a result, the product will be stored at the arrival station, in order to optimize the railroad car.

1. Conclusions

This research show that the involvement of carbon capacity (carbon cap) mechanism as the constraints to observe the effect on total system costs, emission produced and inventories. Sensitivity analysis is conducted by changing the parameters of carbon capacity. To see the behavior of the model on the carbon capacity, numerical studies for seven parameter scenarios have been researched. From the experiments, we can describe that a trade-off occurs between the supply chain emissions and the supply chain costs. High costs will cause small emissions. The other result shows that the changes in carbon cap also affects the inventory levels both at the factory and at the station. The higher carbon, The higher inventory on station and the lower inventory at factories.

1. References

Benjaafar, S., Li, Y., Daskin, M., (2010), "Carbon Footprint and the Management of Supply Chains: Insights from Simple Models". *IEEE Trans. Autom. Sci. Eng*, 10 (1), 99–116.

Chen, X., & Wang, X., (2016), "Effects of Carbon Emission Reduction Policies on Transportation Mode Selections with Stochastic Demand", *Transportation Research Part E: Logistics and Transportation Review*, 90, 196–205.

Cheng, C., Yang, P., Qi, M., & Rousseau, L.-M., (2017), "Modeling a Green Inventory Routing Problem with a Heterogeneous Fleet", *Transportation Research Part E: Logistics and Transportation Review*, 97, 97–112.

Hammami, R., Nouira, I., & Frein, Y., (2015), "Carbon Emissions in a Multi-Echelon Production-Inventori Model with Lead Time Constraints", *International Journal of Production Economics*, 164, 292–307.

Hua, G., Cheng, T. C. E., & Wang, S., (2011), "Managing Carbon Footprints in Inventori Management", *International Journal of Production Economics*, 132(2), 178–185.

Hoen, K.M.R., Tan, T., Fransoo, J.C., Houtum, G.J., (2010), "Effect of Carbon Emission Regulations on Transport Mode Selection in Supply Chains", http://cms.ieis.tue.nl/Beta/Files/WorkingPapers/Beta\_wp308.pdf**S**, accessed on 20/05/2010.

Konur, D., (2014), "Carbon Constrained Integrated Inventory Control and Truckload Transportation with Heterogonous Freight Trucks", *Int J Prod Econ,* 153: 268-279.

Konur, D., & Schaefer, B., (2014), "Integrated Inventory Control and Transportation Decisions under Carbon Emissions Regulations: LTL vs. TL Carriers", *Transportation Research Part E: Logistics and Transportation Review*, 68, 14–38.

Mohammed, F., Selim, S. Z., Hassan, A., & Syed, M. N., (2017), "Multi-Period Planning of Closed-Loop *Supply chain* with Carbon Policies under Uncertainty", *Transportation Research Part D: Transport and Environment*, 51, 146–172.

Pan, S., Ballot, E., & Fontane, F., (2013), "The Reduction of Greenhouse Gas Emissions from Freight Transport by Pooling Supply Chains", *International Journal of Production Economics*, 143(1), 86–94.

Schaefer, B., & Konur, Dincer., (2015), "Economic and Enviromental Considerations in a Continuous Review Inventory Control System with Integrated Transportation Decisions", *Transportation Research Part E*, 80: 142-165.

Shaw, K., Shankar, R., Yadav, S. S., & Thakur, L. S., (2013), "Production Planning & Control : The Management of Operations Modeling a Low-Carbon Garment *Supply chain*", *Production Planning & Control*, 24(8–9), 851–865.

Tang, S., Wang, W., Yan, H., & Hao, G., (2015), "Low Carbon Logistics: Reducing Shipment Frequency to Cut Carbon Emissions", *International Journal of Production Economics*, 164, 339–350.