



Malaysia glass packaging review



Freelance correspondent, Sunder Singh discusses recent changes to the Malaysian glass container industry and their impact on South East Asia.

As with most South East Asian economies, the impact of the global economic and financial crisis on Malaysia has been felt largely through a contraction in aggregate demand, caused by a collapse of exports to Western economies. This contraction has aggravated a struggling glass container industry, despite the fact that energy and raw materials price swings have largely spared the country's glass bottle producers from serious problems.

Malaysia largely avoided financial meltdown during the 2008-2009 global financial crisis but the contraction in export demand drove its glass container industry into a corner. In weathering the crisis, most macro-economic fundamentals have remained strong but the recession resulted in static demand from the food and beverage sectors, resulting in a prolonged period of flat and negative growth for the industry. In comparison, the flat glass sub-sector registered growth in 2009 and 2010 and shows signs of revival.

LIMITED ALCOBEV OPPORTUNITIES

It is important to understand the geography as well as the population mix of Malaysia to interpret glass

packaging demand. The country comprises 13 states, 11 on the Malay Peninsula and two (Sabah and Sarawak) on the island of Borneo. Malaysia is a multi-ethnic country of 27 million people. Malays are the predominant ethnic group, two other large groups being Chinese and Indian.

The cultural challenge of being a predominantly Muslim population and having one of the world's highest taxes for alcohol has hindered the growth of an alcohol and especially beer industry. The glass container industry, which is driven mainly by growth in these sectors, has remained at a standstill for a long period.

Increasing demand for packaged foods has failed to help the cause in a big way because whatever gains the glass container industry realises in terms of food packaging are eroded by the advance of metal cans and PET in the soft and hard drinks categories. The result is there for everybody to see. For many years, the country was served by three glass companies, although Kuala Lumpur Glass was closed to streamline operations at its parent company Malaya Glass in Johor Bahru, while the third company (JG Container Glass) has remained a niche player since its creation in the 1970s.

Guinness Anchor and Carlsberg

Brewery Malaysia account for approximately 95% of beer sold in Malaysia. Some growth in beer consumption has been recorded, however, with the country's 146 million litres of beer consumption (2010 statistics) likely to touch 170 million litres at current growth rates.

ASEAN AND CHINA IMPACT

The effect of the ASEAN Free Trade Area (AFTA) and greater competition from companies in Thailand and Indonesia especially made a substantial impact on Malaysia's leading glass container producer. With lower production costs compared to Malaysia, Malaya Glass opted to establish production centres in Thailand, China and Vietnam.

KEY ACQUISITION

The year before last was a watershed for the glass container industry in South East Asia, the acquisition of Malaya Glass and its factories in four countries by Owens-Illinois and Thailand's BJC having changed the industry's dynamics throughout the region. With a combined manufacturing capacity of 3300 tonnes/day, the realigned group became the largest glass packaging producer in South East Asia. Deloitte Corporate Advisory Services Sdn Bhd (DCAS) was advisor to Fraser & Neave Holdings Bhd in its disposal of Malaya Glass, whereas Deutsche Bank advised BJC and O-I.

"BJC is focusing on regional expansion in South East Asia, particularly in Indochina and Malaysia" said Aswin Techajareonvikul, President of BJC at the time of acquisition. "This acquisition will further strengthen our foothold in Malaysia, where we today have established >

	2007	2008	2009
Annual production capacity (tonnes)	168,000	168,000	150,000
Actual production (tonnes)	137,614	144,075	122,970

Installed and actual production at Malaya Glass in recent years.

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trading and manufacturing operations in industrial and consumer products" he continued. "Together with our existing facilities at Thai Glass Industries, BJC will be the largest producer of glass containers in South East Asia."

GRAND DESIGNS FOR MALAYSIA

Owens-Illinois is optimistic about the potential for the Malaysian glass container industry. Latterly, the global glassmaker has invested strongly in Asia Pacific and Latin America, given the fact that these markets collectively represent more than 50% of global glass consumption.

In Malaysia, the company decided to pursue an inorganic mode of growth by acquiring Malaya Glass. "This acquisition is aligned with our strategic objectives to seek a leadership position in China and South East Asia" commented O-I Chairman and CEO Al Stroucken following the purchase. "The plant in Sichuan expands our presence in China and the joint venture offers us an instant competitive position in the important growing markets of Vietnam and Malaysia. We expect to see an immediate positive impact on our earnings as a result of this acquisition."

MALAYA GLASS

Malaya Glass Products Sdn Bhd produces glass containers for breweries, food companies and soft drinks manufacturers in Malaysia. The company was founded in 1968 and is based in Johor Bahru. With a production capacity of 425 tonnes/day, the company is the largest glass manufacturer in Malaysia, with more than 70% market share. In addition to its Malaysian operations, MGP held 70% shares in Malaya Vietnam Glass Ltd (MVG) and Thai Malaya Glass (TMG) and a 60% shareholding in Malaya Sichuan Glass in China.

Following its acquisition in mid-2010, Malaya Glass now operates as a subsidiary of ACI International Pty Ltd and Berli Jucker Public Co

Ltd. Acquiring company, BJC is a leader in the manufacture and distribution of consumer products in Asia. The company operates in four countries in South East Asia.

Despite the local industry's slow market growth, over the years Malaya Glass invested strongly in the latest manufacturing technology to remain competitive. Advanced machinery, inspection and handling systems have been acquired from such organisations as Emhart Glass, Bottero, MSC & SGCC, Sheppee, Emmeti and Pneumofore. In 2004, for example, Pneumofore vacuum technology was installed on the Bottero IS machines at Johor Bahru. Continued factory upgrades and modernisations have helped the company to achieve the objective of high speed container manufacture with low reject rates.

Subsidiary operation, Kuala Lumpur Glass operated a factory at Petaling Jaya which was closed in 2008 to consolidate the company's Malaysian operations at a single location. The shifting of operations to Johor Bahru enabled Malaya Glass to maximise operating efficiencies and facilitated a leaner management structure. In the same year, Malaya Glass rebuilt its third furnace and commenced commercial running of three production lines. This increased overall pull from 290 to 440 tonnes/day, resulting in larger economies of scale.

By running three furnaces, the division was able to fulfill demand for amber, flint and green glass bottles. Before its closure, KL Glass had invested RM10.8 million in plant expansion.

Besides serving domestic demand, the company exports glass containers to neighbouring markets. About 20% of Malaya Glass production is exported to Hong Kong, the Philippines and Papua New Guinea.

JG CONTAINERS SENDIRIAN BHD

Established in 1972 by Indian company BILT in Klang, JG Glass Containers produces glass packaging for the food and pharmaceuticals industries, exporting approximately 30% of output. Current installed capacity is 150 tonnes/day.


Built in 2010 by Horn Glass Industries, the company's latest furnace features Lubisol crown insulation and has achieved significant energy savings compared to previous installations. The use of high levels of cullet has assisted these efforts.

MACHINE BUILDING

Emhart Glass has a long association with Malaysia, having established a manufacturing operation to serve the Asian markets from close quarters and take advantage of the region's cost competitiveness. In November 2007, the Taman Preindustrial Cemerlang, Johor Bahru facility was expanded and is active in the assembly of IS machines, cross conveyors, the fabrication of welded parts, as well as including a job shop and warehouse. There is also a training facility for both hot end and cold end products.

EXPORTS AND IMPORTS

The inter-companies transfer of glass containers across the South East Asian region makes it difficult to arrive at a precise figure for imports and exports. Malaysia, which is self-sufficient in terms of glass container production, has been a net exporter however. Before its acquisition by OI/BJC, Malaya Glass was exporting almost 25% of production to its neighbours. Continuing changes to industry structure dynamics and demand continue to influence the local glass container business. ■




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