



Vietnam glass container sector review

With the ASEAN Glass Conference scheduled to take place for the first time in Hanoi from 24 to 27 September 2012, freelance correspondent Sunder Singh assesses the status of the Vietnamese glass container industry.

Vietnam was among the last of the South East Asian economies to have embraced the modernisation of its industries in a big way. Although still considered a laggard in terms of its glass container industry compared to its South East Asian peers, the last two years have represented a good time for the country's hitherto largely untapped glass container sector. Based on recent trends and anticipated investments, the country should become self-sufficient in the medium-term and a net exporter of glass packaging for the region.

Food and beverage consumption in this densely populated and fast developing country, which was ravaged by war for long periods, is increasing at break-neck speed, spearheaded by demand for beer, largely packaged in glass containers. The country's industry suffered considerably during the war years and most of the limited demand was met by state-controlled enterprises and imports. Throughout this period, glass container needs were met from neighbouring China and more recently, Thailand.

UNLEASHED TIGER

It was in the 1990s that the Vietnamese authorities took steps towards liberalisation and international integration. They have moved to implement the structural reforms needed to modernise the economy and to produce more competitive export-driven industries. The mid-1990s saw the establishment of two large glass container companies in the country, for example.

Vietnam joined the World Trade Organisation in January 2007, following more than a decade-long negotiation process. This step was a double-edged sword, however, at least for the country's glass container industry, as the volume of Chinese imports increased significantly following accession. Desperate poverty has declined significantly, leading to an overall increase in consumption for beverages and packaged food items.

BLIPS ON THE RADAR

The latest global economic recession has hurt Vietnam's economy badly, with GDP in 2009-10 growing less than the 7% per annum average achieved during the previous decade, resulting in depressed demand for glass packaging.

In 2010, total exports increased by more than 25% year-on-year but the trade deficit remained high, prompting the government to consider administrative measures to limit the trade deficit. Vietnam's managed currency, the dong, continues to face downward pressure due to a persistent trade imbalance. However, the government's strong growth-oriented economic policies have caused it to struggle to control one of the region's highest inflation rates, which reached 23% in 2011. All these indicators have led to a temporary decline in glass container demand and

production. Surprisingly, however, imports have increased during these recessionary years (2007-2011).

MAJOR PLAYERS

The Vietnamese glass container industry has been dominated by two leading producers for some time, greater focus on the four original South East Asian Tigers having kept the country's glass container industry in the background. Financial crises in late 1990s in these economies stalled further investments throughout the region until the middle of the last decade. However, both main local glass players have undertaken various modernisations and capacity expansion programmes throughout recent years.

The Vietnamese industry was the subject of major realignment in 2010, when F&N sold its local business to BJC. Planned relocation and capacity expansion will take some time to complete. In addition to San Miguel Yamamura Haiphong Glass, elsewhere there are several smaller companies, producing containers using obsolete technology, although these companies are restricted to meeting the needs of small, niche sectors and customers.

MALAYA VIETNAM GLASS LTD (MVGL)

Malaya Vietnam Glass Ltd was established in 1993 as a joint venture between Malaysia's Malaya Glass Products (formerly a Fraser & Neave Holdings subsidiary) and a local partner. The company commenced operations in 1995 with an installed capacity of 173 tonnes/day. Since its inception, the company has produced a wide range of high quality glass containers for beer, beverage, food, pharmaceutical and cosmetic



The Vietnamese glass container industry is likely to experience robust growth in the future.

customers. Flint, amber and green colours are melted.

The company managed almost 60% of the local market until the middle of the last decade, the balance being shared by San Miguel Yamamura and imports from China and Thailand. The company carried out expansions and modernisations in 1998 and 2004 to meet evolving and dynamic market demand. International suppliers involved in these projects included E W Bowman, Sheppee International, Pneumofore, Lubisol, XPAR Vision, Fusiref-Belref, Pyrotek, IPratec and Vertech.

Earlier this year, OI BJC executed an expansion of its glass factory to Vietnam in line with its policy to strengthen the business amid the open market environment when the ASEAN Economic Community becomes fully effective in 2015. Located approximately 60km south east of Ho Chi Minh City in Ba Ria >

Year	2007	2008	2009	2010	2011
Imports in 000 USD	17,805	26,730	32,862	28,189	31,564

Vietnamese glass container imports (2007-2011).

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Vung Tau Province, this plant produces approximately 75,000 tonnes/year of glass containers for the country's rapidly growing beer, soft drinks, food, wine, spirits and pharmaceutical markets. However, the \$47 million factory has the potential to extend to four lines with a production capacity of 84,000 tonnes of glass annually if the demand dictates. The facility has one furnace, three production lines, two ACL decorating lines and uses natural gas as its primary fuel for cost reduction and improved sustainability. Owens-Illinois (O-I), Berli Jucker and Saigon Beer Alcohol Beverage Co (SABECO) are partners in the venture. As Vietnam's leading beer producer, SABECO needs access to high quality premium glass packaging to support the needs of discerning Vietnamese consumers.

Built between September 2009 and November 2011, this factory replaced the former Malaya Vietnam Glass factory in Ho Chi Minh City, vacated by the company to facilitate the city's urban development plans. Equipped with the latest manufacturing technology from leading international suppliers, it is among the most advanced glass container factories in the region. Leading suppliers include Zippe Industrieanlagen (batch and cullet plants, cullet scrapers and crusher), Hartman & Bender (IS machine equipment) and MSC & SGCC (inspection machines).

In addition to local Vietnamese demand, the company is looking to develop opportunities in such markets as Myanmar and Indonesia.

O-I CEO and Chairman Al Stroucken is quoted as saying that O-I BJC has become Vietnam's leading glass container manufacturer, supplying most of the country's local and global food and beverage companies. "Vietnam is experiencing strong economic growth, which clearly provides opportunities for the glass industry" he said. "We know that beer is packaged primarily in glass here and we know that consumers are looking for quality, taste and purity of contents. Our high quality and versatile glass containers are the perfect packaging solution."

According to Mr Stroucken, glass is the most economical and sustainable packaging available, especially when using returnable containers, so it is vital that operations are in place as the markets in this region grow and mature. "This new plant allows us to meet and exceed the high expectations of current and future customers in this region" he added.

BJC President, Aswin Techajareonvikul said BJC focused on regional expansion in South East Asia, particularly Indochina and Malaysia. "The opening of our latest facility will further strengthen our foothold in Vietnam, where we have established trading and manufacturing operations in industrial and consumer products. Together with our TGI glass plants, the joint venture will make BJC and O-I BJC the largest producer of glass containers in South East Asia. It is also another major milestone in expanding BJC's operations in the region."

According to O-I's General Director Anthony Barstow, the factory will break even in five years, when it holds 50% of the local market.

SAN MIGUEL YAMAMURA HAIPHONG GLASS

A member of the Hanoi Beer, Alcohol and Brewery joint stock company, the San Miguel Yamamura Hai Phong Glass Co Ltd produces glass bottles primarily for the beer and alcoholic beverage industries. San Miguel Yamamura (SMY) is a partnership between two Asia-Pacific industry leaders - food and beverage conglomerate San Miguel Corp of the Philippines, with a 60% stake and Japan's leading glass container producer Nihon Yamamura Glass Co Ltd, which holds the remaining 40% share.

San Miguel Corp is a food, beverage and packaging company, established in 1890 initially as a single product brewery in the Philippines. Today, SMC has over 100 facilities



in the Philippines, South East Asia and China. The company's extensive product portfolio includes beer, liquor, carbonated and non-carbonated non-alcoholic beverages, processed and packaged food products, meat, poultry, dairy products and a number of packaging products. SMC's flagship product, San Miguel Beer, is among the world's largest selling beers.

Much of its Vietnamese glass container production is consumed in Vietnam and other South East Asian countries, with only a small percentage exported to other consumers. Set up with the technical expertise of its partner, Nihon Yamamura Glass, the Vietnamese plant boasts an ultra modern set-up.

GO VAP GLASS

This mid-sized company has been operating since 1960 in Saigon. In its early days, the company produced only small medicine bottles and syringes for the local market. In 1985, Go Vap Glass also diversified into tableware, developing an export business in 1993. Since 1999, it has been operating as a joint stock company, without state control. Currently, with a modest capacity of 110 tonnes/day of glass containers, the factory primarily serves the pharmaceutical sub-sector and selected niche businesses.

POSSIBLE BEVERAGE ENTRANT

TCC Holdings, which has many diversified subsidiaries, plans to set up a series of plants in Vietnam for the production of beverages, notably beer and non-alcoholic drinks. Among the organisation's major units are Thai Beverage, (Chang beer), Oishi Group (ready-to-drink green tea) and Berli Jucker, which already has extensive business interests in Vietnam.

According to Charoen Sirivadhanabhakdi, Chairman of TCC Holdings (and Chairman of Berli Jucker) however, these investments will not take place before 2015, when the ASEAN Economic Community (AEC) is fully implemented and by which time the company has established a firm distribution network and support manufacturing facilities, such as glass containers in the country.

"We need to develop strong business fundamentals in Vietnam in the areas of human resources, logistics and distribution and support facilities such as packaging, before setting up our beverage plants" says Mr Chaoen.

In addition, he confirmed that the establishment of bottling plants for its major alcohol and non-alcohol beverages in Vietnam would not be a difficult task and could be implemented quickly when the appropriate time arrives.

UNTAPPED POTENTIAL

The South East Asian glass container industry has faced radical changes in the past two years. The dominating presence of China and economies of scale have overshadowed the region's (specifically Vietnamese and Thai) industry to a great extent, until now. But with ASEAN free trade agreements gaining popularity and Chinese production and freight becoming increasingly expensive, Vietnamese industry is likely to experience robust growth.

To an extent, glass packaging is suffering from competitive PET and other forms of packaging. However, healthy growth in the beer industry is keeping total volumes high, year after year. This robust growth is likely to see at least one large or two mid-size glass container producers entering the market in the medium term. ■

ABOUT THE AUTHOR:
Sunder Singh is a freelance correspondent

FURTHER INFORMATION:
email: sunder.singh@gmail.com



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