

Continued challenges for Indonesian glassmakers

Having reported on the Indonesian tableware sector in issue 72 of *Glass Worldwide* (July/August 2017)*, independent correspondent Sunder Singh presents an overview of other areas of the country's hollow sector, as well as the flat glass market and an assessment of major industry developments in the past three years.

The world's fourth most populated country and the largest economy in ASEAN, Indonesia has emerged as a natural choice for one of the region's most vibrant glass industries. Continued low per capita consumption in the glass container sector especially remains a major concern for local producers, however.

Involving four major hollow glass producers and two manufacturers of float glass, the Indonesian glass industry has registered steady growth in the past two years. To meet growing domestic and export demand, float glass producer PT Asahimas and glass container producer O-I have each expanded their installed capacity in recent times.

A growing population, rapid urbanisation and increased disposable income have helped to propel both markets. For the float glass sector, a rise in construction market value from \$102.64 billion in 2017 to \$136.26 billion by 2021, (a CAGR of 7.34%, in value terms during 2017-2021) is expected to create a number of new opportunities.

In comparison, the local hollow glass industry has registered muted

growth. Low consumption of alcoholic beverages is the foremost reason behind this situation. According to a recent World Bank report, Indonesia, home to the world's biggest Muslim population, consumes less alcohol than anywhere else in South East Asia, its people consuming on average just 0.6 litres of alcohol. Despite this low volume, the country is certainly a promising market for beer, which is the most affordable type of alcohol. Coupled with a young population and emerging middle class, this sub-segment could become a major demand driver.

Elsewhere, growing demand from the food, beverage and pharmaceutical sectors has resulted in steady growth numbers for the industry as a whole.

Positive indicators

Macro and micro indicators from Indonesia for recent quarters indicate steady numbers for the glass industry in the future. The national economy maintained strong economic growth in 2017 and the outlook continues to be positive, according to the World Bank's March 2018 Indonesia Economic Quarterly.



For 2017, Indonesia's GDP rose to 5.1% from 5.0% in 2016, its highest growth rate for four years.

Indonesia's real GDP growth picked up to 5.2% year-on-year in the fourth quarter of 2017 from 5.1% in the previous quarter. For 2017, the country's GDP growth rose to 5.1% from 5.0% in 2016, its highest growth rate for four years.

In addition, investment growth was at its highest in more than four years, while foreign direct investment recorded the largest net inflow in over seven years.

Continued gas woes

In 2016, Indonesian President Joko Widodo ordered his cabinet to slash gas prices below \$6 per million British thermal units for 10 industries (including flat and container glass) from January 2017. However, Energy and Mineral Resources Ministerial Regulation No 40/2016, issued in December 2016, only stipulated the reduced rate at around \$6 per mmbtu for the petrochemical, fertiliser and steel industries. Almost 18 months later, glass manufacturers are still waiting for the government to cut the price of gas, despite repeated government assurances that it will happen.

Justinus Gunawan, Chairman of the Float and Safety Glasses Association, says the high gas price undermines the competitiveness of Indonesian producers, as their foreign counterparts can produce glass with lower production costs and offer more competitive prices on the international market.

In fact, Mr Gunawan says that Indonesia's glass industry is at risk of 'deindustrialisation, with no new investment arriving, while a glass manufacturer in Central Java recently had to close its doors. As a result, the country's overall annual installed glass production capacity fell to 1.22 million tons (from 1.5 million tons previously).

The industry is paying an average gas price of \$9.2



A rise in construction market value from \$102.64 billion in 2017 to \$136.26 billion by 2021 is expected to create a number of new opportunities.

per mmbtu, while its regional peers (in Singapore, Thailand and Malaysia) enjoy prices below \$6 per mmbtu. In Malaysia, for example, the gas price stands at a more competitive \$5.5 per mmbtu.

“Indonesia has seen growing imports of glass products, especially from Malaysia, where a Chinese manufacturer invested in a new factory that has a production capacity of 700,000 tons/year” Yustinus Gunawan confirms. “Other Chinese glass companies are also currently interested in building new manufacturing facilities in Malaysia.”

Hollow glass sector trends

As mentioned earlier, the Indonesian glass container industry (including pharmaceuticals) continues to underperform due to low per capita alcoholic consumption in the country. On a more positive note, beer producers have registered more than 7% per annum growth in the last three years. With growing westernisation and changing lifestyles, it is anticipated that the alcoholic beverage sector will play a greater role in driving demand for glass packaging in the future.

Packaged food and beverages, currently the largest customer markets, are also witnessing steady growth on account of lifestyle changes and changing buying behaviours, which are positive indicators for the medium and long-term.

O-I Indonesia

O-I Jakarta was established in 1973 as PT Kangar Consolidated Industries (KCI). At that time, it consisted of one furnace and four production lines to make bottles and tableware. In 1980, a second furnace was installed that more than tripled manufacturing capacity.

Located at Cakung (the eastern district of Jakarta), the plant features two furnaces and six lines, with an installed capacity of 2.64 million bottles/day. O-I Indonesia supplies container glass to major food, beverage and pharmaceutical brands, including Kratingdaeng, Sambal Indofood (Indofood chili sauce), Hemaviton and Marjan syrup, as well as Coca-Cola, Heineken, Heinz, Danone, Nestle, Unilever, Multi Bintang (Indonesia’s largest beer producer), PT Asia Health Energy Beverage, PT

Company	Location	Installed capacity
PT Mulia Glass	Bekasi	140,000 tons/year
Owens-Illinois Indonesia	Cakung	2.64 million containers/day
PT Iglas	Surabaya	340 tons/day
PT Schott Igar Glass	Bekasi	850 million/year

Leading hollow glass producers in Indonesia.

Djojonegoro, PT Supra Ferbindo Farma and Ultra Prima Adadi.

In 2014, the glassmaker spent some \$15 million to upgrade its operations, graduating to NNPB technology and increasing installed capacity to 2.64 million bottles, from the earlier 2.3 million bottles/day.

PT Mulia Glass, Container Division

With an installed capacity of some 410 tons/day, PT Mulia Glass is the country’s other dominant glass container producer. “Sales volume of glass containers declined by 1.8% year-on-year to 128,872 tons in 2017” the company’s management commented. “Staying faithful to our strategy to continue developing various product types and expand both domestic and export markets, we would continue increasing sales of lightweight bottles, using narrow neck press and blow technology, as well as green coloured bottles, consumed by the alcoholic beverage industry.”

PT Iglas

State-controlled PT Iglas is the oldest glass container producer in Indonesia. Operating since 1958 at Surabaya, the company has an installed capacity to produce 340 tons/day of glass for the food, beverages and pharmaceutical sectors. ▶

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Company	Location	Installed capacity	Remarks
PT Asahimas	Ancol, Cikampek and Sidoarjo	670,000 tons per annum	In the process of increasing total installed capacity to 720,000 tons per annum
PT Mulia Glass		595,000 tons per annum	
PT Tossa Shakti	Kendal	900 tons per day	Currently closed

Flat Glass producers in Indonesia.

Manufacturing plant	Location/ region	Installed capacity	Products
Ancol	North Jakarta	120,000 tons per year	Float glass
Cikampek	West Java	210,000 tons per year	Float glass
Cikampek	West Java	5,000,000 square metres	Automotive glass
Sidoarjo	East Java	340,000 tons per year	Float glass

PT Asahimas flat glass manufacturing locations.

In its heyday, the company dominated the Indonesian glass container industry, with more than one third of the total market share. But for the past decade, it has been struggling to remain profitable. In 2015, the company laid off a large part of its workforce due to continuing losses.

Last year, the government announced plans to restructure 11 state-owned companies, including PT Iglass but to date, there have been no developments in this regard.

PT Schott Igar Glass

German pharmaceutical glassmaker Schott entered Indonesia in 1996, establishing a joint venture with local producer PT Kalbe Farma. In 1997, Schott purchased Kalbe's 51% stake in the business and consolidated the Indonesian company under Schott International. In the early 2000s, Schott moved all of its production from Malaysia to Indonesia, to produce both for the local market and exports.

In 2014, Schott Indonesia carried out a major expansion exercise and

increased production capacity by 20%, as part of its overall strategy to offer higher quality pharmaceutical glass packaging solutions to meet the country's growing middle class demand. The company's manufacturing facilities are located on an extensive area of 30,000m² in Bekasi and feature 70 production lines, which can produce 850 million vials, ampoules, pipettes and special articles for the pharmaceutical sector. The production facilities are equipped with special automatic monitoring systems for quality control. The continuous control of operations with video cameras and sensors guarantees the automatic rejection of products that do not meet specifications during the production process. With the help of special analytical tests, product quality is also tested and guaranteed in the company's quality laboratory. After delivery, products and batches can be traced using numbering systems corresponding to the respective customer.

Approximately 60% of its products are sold locally, while the rest is exported to about 20 different countries in ASEAN, the Middle East, India and Pakistan. Global pharmaceutical giants such as Roche, Aventis and Pharmacia and local companies like Biofarma and Harsen are leading customers of the Indonesian operations.

Flat glass industry status

Indonesian float glass producers made 1.18 million tons of flat glass products in 2017. Total installed capacity was much higher at the start of 2017 but one of three producers (PT Tossa Shakti) suspended operations in March 2017. Now, PT Asahimas Glass and PT Mulia are the country's two operational float glass producers.

PT Asahimas

With a current installed capacity of 670,000 tons, PT Asahimas is the largest flat glass producer in the country (see Page 32 for Factory

Spotlight). With float plants at three different locations at Jakarta, Cikapek (west Java) and Sidoarjo, the company has a great strategic advantage in terms of covering the domestic market from three different manufacturing locations.

During next 18 months, the company will be increasing installed capacity of float and coated glass. In June 2017, PT Asahimas entered into an agreement with parent company Asahi Glass Co Ltd of Japan for the construction of a new furnace in Cikampek (C-2 furnace). Construction started in late 2017 and is expected to be completed in the second quarter of 2019. The investment is estimated to be JPY 6,640,000,000. In addition to float glass, AMG will enhance production capacity for mirrors and other glass products for interior use to meet a need to diversify in high value-added glass.

Following commencement of commercial production, PT Asahimas will cease production at its Jakarta plant. This plant has been manufacturing flat glass since 1973. Under the Jakarta City Master Plan, the plant is facing relocation, as the land category of the premises will be changed from industrial to commercial use. One of two float furnaces at the plant has already been transferred to the Cikampek site and started operation in December 2016.

The company also entered into an agreement with AGC Glass Europe in June 2017 for the installation of a magnetron coater with a total capacity of 3.6 million m² per year. PT Asahimas has a licensing agreement with AGC Glass Europe, under the terms of which the company manufactures and sells CVD coated glass products.

PT Mulia Glass

Indonesia's second largest float glass producer, PT Mulia Glass has an installed capacity of 595,000 tons per annum of flat glass products. The company's sales volume of float glass increased by 3.4% year-on-year to reach 521,213 tons in 2017, with exports and domestic sales accounting for 35% and 65% of total sales volume respectively.

Sales volume growth was primarily driven by domestic sales as it increased by 19.6% year-on-year from 284,875 tons in 2016 to 340,861 tons in 2017. Export sales declined by 17.7% year-on-year from 219,050 tons in 2016 to 180,352 tons in 2017. Sales of automotive safety glass increased by 8.8% year-on-year to reach 644,882m² in 2017, supported by the introduction of new brands and models of cars during the year.

"We have been facing tough competition from new glass manufacturers located in Malaysia, where the price of natural gas and freight cost were cheaper in Malaysia than those in Indonesia" commented Ekson Tjandranegara, General Manager at PT Mulia float glass division. "Consequently, selling prices in export markets were depressed."

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* The Indonesian tableware report can be downloaded from the AFGM library of articles at www.glassworldwide.co.uk/afgm-articles-2017

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Beer producers have registered more than 7% per annum growth in the last three years.

