

Re-firing

tile prospects and challenges for Vietnam

Jahir Ahmed discusses how Vietnam's tile industry is struggling to maximize its previous potential in the face of falling demand and a surge in imports.

It is an unfortunate event for Vietnam's largest ceramic tile manufacturer Prime Group to encounter a situation completely opposite to its much more optimistic situation of 2010 within a mere two years. Prime and other ceramic tile manufacturers celebrated Vietnam's elevating to the position of the world's fifth largest consumer of ceramic tiles, and to sixth largest manufacturer of the ceramic flooring systems. Vietnam soon experienced an economic downturn in 2011 when GDP growth rate dropped to 5.89 percent from the previous year's 6.78 percent. Now it is struggling hard for a rebound.

Instead of expected growth, forecasted earlier, ceramic and porcelain tile consumption was down 2.7 percent to 350 million square meters in 2011 from the previous year's 360 million sq metres, as house building construction received a serious setback following a chaotic rise in living cost fuelled by 18.12 percent inflation rate and accompanied higher bank interest and impacted decline in spending on new house and renovation.

The current year carried over the impacts of worsts of 2011 aggravating crisis in the tile industry. The slump in construction continues to stay as the government action proved to be inadequate to set the things right soon, observed the construction industry leaders.

"The prevailing economic crisis and the government policy to curb inflation has caused the continued slump in construction," said Dr. Tran Van Huynh, Chairman of Vietnam Association for Building Materials (VABM), "Public investments have been reduced while several projects have been shelved due to capital shortage," Huynh added. Huynh demanded effective measures by the government for a quick change in the situation to restore normalcy in building materials sector.

Vietnam still has a good GDP growth, but the building materials markets have collapsed. The boom in ceramic tile production in Vietnam depending largely on the high GDP growth-led domestic market is not seen from same perspective by everyone. "Building material products, products, such as ceramic tiles, construction glass and cement have recently seen supplies exceed demand due to earlier, overheated investment in real estate and construction," observed Luong Duc Long, Director of Building Materials Institute, under the Ministry of Construction.

"The higher economic growth led investment opportunity was driving enterprises, private and state-owned alike, to jump

into these areas with expectations of a large market," Long suggested. "Supplies were also driven up by the appearance of a lot of construction projects that weren't included in master plans," he said.

The Vietnamese ceramic-tile industry produced about 400 million square metres of products last year, becoming ASEAN's biggest tile producer, replacing Indonesia, local industry sources disseminated this breaking story. According to the sources, in early 2009, the ceramic tile industry's production capacity was only 299 million square metres per year, accounting for only two-third of the capacity of Indonesia. If the production report is correct, a serious glut in the market was natural.

Even on a lower production data, Vietnam Building Ceramic Association (VIBCA) predicted in July that the ceramic tile industry will be forced to down-size the utilization of production capacity to 70 percent from near about full utilization in the previous years. There is a huge stock pile of unsold production of current year that carried over huge surplus of last year, when production was recorded at 380 (+3.5 percent) million sq metres of tiles against the available production capacity of 414 million sq metres.

The capacity utilization was much higher in 2010 when Vietnam produced 367 million sq metres of ceramic tiles against the total production capacity of 384 million sq metres, VIBCA said. As the production picked up following higher economic growth, tile industry continued investment in new projects and expansions, resulting in increase of production capacity to an estimated 447 million sq metres in 2012 with a hope that the economy will rebound and the recession in export markets will be eased this year, according to VIBCA.

VIBCA's prediction on utilization cut proved correct, the whole second half of the current year was disappointing to the manufacturers as the construction sector continued to remain flat forcing the factories to pile up unsold tiles. The factories are struggling hard even to utilize two thirds of the production capacity, industry sources said.

Rising inventories

Industry sources said, the building materials sector is now passing through a difficult time. Many of the manufacturers are counting losses for drastic fall in demand of their products.

VABM said employees are being retrenched in many ceramic





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Vietnam's ceramic tile industry production capacity in million square metres

Year	2010	2011	2012 (est)
Ceramic tiles	325	340	360
Porcelain tiles	52	60	70
Cotto tiles (terracotta, other heavy clay)	7	14	17
Total	384	414	447

Vietnam's ceramic tile industry real production in million square metres

Year	2010	2011	Variation %
Ceramic tiles	310	315	+1.6
Porcelain tiles	50	55	+1.1
Cotto tiles (terracotta, other heavy clay)	7	10	+42.8
Total	367	380	+3.5

Vietnam's ceramic tile consumption in million square metres

Year	2010	2011	Variation %
Ceramic and porcelain tiles	360	350	-2.7
Cotto tiles (terracotta, other heavy clay)	7	10	+42.8
Total	367	360	

Note: New investment and output in 2011 increased a bit higher than 2010. Consumption reduced because of impacts of slump in real estate market. The changes confirm difficult challenges of Vietnam tile industry in 2012. Source: Vietnam Building Ceramic Association (VIBCA)

Vietnam's ceramic tile exports during 2010-2012 in million US dollars

Year	2010	2011	2012 (Jan-May)
Ceramic tiles Key export markets: Laos, Taiwan, Thailand, Japan, Cambodia, Indonesia, Korea, etc.	120	185.14	42.67

Vietnam's ceramic tile imports during 2010-2012 in million US dollars

Year	2010	2011	2012 (Jan-May)
Ceramic tiles Main import sources: China, Thailand, Spain, Italy, etc.	95.5	46.4	15.4

My Duc Ceramics in Vietnam. photo credit My Duc



tile factories regularly to reduce operating cost. According to VABM, the inventory level for ceramic tiles has increased to a worst level that forces to reduce operation, even to shutdown production lines.

VABM Chairman Huynh said the ceramic tile sector recorded an inventory of 40 million sq metres, equivalent to VND3 trillion or US\$142.8 million. Roughly half of ceramic tile factories had to halt their production as a result.

Huynh said the high inventories are due to the economic slowdown as well as government policies to cut public investment. In addition, increasing prices of raw materials and high interest rates have prevented businesses from accessing loans.

The VABM has proposed to the government to reduce bank interest rates, extend deadline to pay back bank loans and provide stimulant packages. Projects built from state budget or foreign loans should consume domestic not foreign made products.

VIBCA has proposed government's effective policy to rescue the tile industry when it experiences crisis due to economic recession. "The government should introduce some measure that can help boost consumption of building materials," said Dinh Quang Huy, Chairman of VIBCA.

Huy suggested that if the consumers should be given government incentives to spend on construction and renovation that will help drain out unsold stocks. He also demanded strong measures against corruption in the process of tile imports from China to improve the situation in the tile sector.

"Due to economic recession, frozen real estate market has lowered consumption, as many construction projects have been halted, but corrupt practices on import of tiles from China have worsened the situation" said Huy.

Manufacturer Profile

Viglacera Corporation

Established in 1974

Location: Hanoi

Owning status: A state owned building material conglomerate for production and sales of ceramic and glass products and others.

Capacity: 23 million square metres a year (including granite tiles).

Products: Ceramic floor and wall tiles produced in different factories of its own unit companies. The products include porcelain tiles, ceramic tiles, and terracotta tiles.

Trademark/brand: As a trade mark or brand, Viglacera is known **worldwide** as a major ceramic tile producer of Asia.

Markets: Domestic and export markets.

Viglacera Hanoi Joint Stock Company (under Viglacera Group)

Established in 1994

Locations: Four factories in Bac Ninh and Hai Duong

Capacity: 7 million sq metres

Products: Ceramic floor tiles of various sizes, colors, and pattern of glossy, matt finish, with main product dimensions of 40x40, 45x45 and 50x50 cm.

Product trademark/brand: VIGLACERA

Markets: Domestic and export markets. Products are exported to many countries, mainly to Korea, Pakistan, Bangladesh, Thailand, Mauritius, Cuba, Panama, USA, Canada and Australia.

Viglacera Thang Long JSC

(a unit of Viglacera Corporation)

Location: Phuc Thang, Phuc Yen, Vinh Phuc.

Products: A leading manufacturer of ceramic floor and wall tiles of diverse designs, colours and sizes ranging from 25x25, 30x30, 40x40, 60x60 for floor tiles, and 20x25, 25x40, 30x45 cm for wall tiles both matt and gloss finish, also many style, borders, decors are available. High technology used in production line makes the product surface resistant against all natural effects, the company claims.

Markets: Domestic and export markets.

Ha Long Ceramic Co

Status: State owned

Location: Ha Khau Precinct, Ha Long city, Quang Ninh

Products: Ceramic tiles, using Vietnam's best clay from Gieng Day quarry founded by the French over a century ago.

Markets: Domestic and export markets.

VITALY Joint Stock Company

Locations: Tan Binh District, HCM city and in Binh Duong

Status: A state owned manufacturer since four decades.

Production capacity: 7.5 million sq metres per year.

Products: Ceramic tiles using synchronous production line with a high level of automation.

Markets: Domestic and export markets. Foreign buyers including Thailand, Sri Lanka, Australia and USA.

Prime Group JSC

Status: A conglomerate of building products manufacturers and others.

Location: Binh Xuyen, Vinh Phuc

Production capacity: Some 70 million sq metres per year.

Products: Glazed porcelain and ceramic floor and wall tiles of various types, designs, sizes, colors and price ranges, specially, for the mass markets. Production operations include extraction and processing of raw materials for the ceramics industry, roofing tiles and cotto tiles (heavy clay) as well as ceramic floor and wall tiles.

Markets: Domestic and export markets. Importing countries include South Korea, Taiwan, Pakistan, Cuba, Yemen, Sri Lanka, India, and Iraq.

My Duc Ceramics Limited Company

Established in 1996

Location: My Xuan A IP, My Xuan Ward, Tan Thanh, Ba Ria Vung

Production capacity: 4 million sq meters of glazed ceramic tiles.

Products: Ceramic tiles, having production lines for monoporosa, monocottura, and special decorative tiles, to meet domestic and export demands for quality flooring systems. Its tile sizes range from 25x25 to 60x60cm.

Brand: My Duc's Eurotile brand meets the European and other equivalent standards of quality for high-end segment, claims the manufacturers.

Markets: Domestic and export markets.



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"Chinese tiles, a considerable part of which are smuggled into Vietnam, have only made the situation difficult to cope with," Huy said. "Many of the Chinese tile importers commit trade frauds," he added.

While committing fraud, the importers reduce the products' real values and quantities in Customs declaration, the manufacturers alleged.

"Import tariff on tiles imported from China is at least 25 percent, but the duty collected from the importers are far lower, since the values shown on the invoices are 50-70 percent less than the products' real cost," he said.

"The fraud has become increasingly serious, hurting local tile makers; even driving some of them to the brink of bankruptcy."

Vietnamese newspapers very often publish reports on the criticism by the industry people against corruption in import of Chinese ceramic tiles and cross border smuggling that affect ceramic tile industry.

The manufacturers allege that none is there to check entry of smuggled Chinese tiles.

"Smuggling and commercial fraud of building ceramics from China to Vietnam have always been the big challenges to Vietnam's ceramic industry, till now we have not any solutions for this problems," said a VIBCA statement.

Some manufacturers have reduced production by 35-40 per cent, due to increase of average production costs, low competitiveness and losses.

Such production cut in many cases were due to impact of smuggling and trade fraud. Huy said local producers had additionally been struggling to compete with diversified and cheap Chinese products.

The government authorities hardly come out with response for effective action against smuggling and corruption in imports by showing false documents that affected tile factories badly in present crisis situation, the tile manufacturers said.

Nguyen Van Sinh, Director of Viglacera Thang Long Ceramic Tile JSC, said many of the Chinese products are sold at half price compared to his products, while quality is almost equivalent.

The manufacturers said Chinese 20cmx20cm ceramic tiles are currently sold in the Vietnamese markets at VND20,000-30,000 (approx US\$1-1.5) per sq metre, which is VND30,000 lower than that of Vietnamese equivalents.

The VIBCA has proposed to the government that that ceramic tiles be put on the list of products for special attention, necessitating new measures for calculating import tax based on specified dimensions on imported Chinese tiles. Sinh, in support of the VIBCA proposals said that import tax rates could be set at between US\$5 and US\$12 per square metre instead of a tax being imposed on each invoice as was currently the case.

VIBCA has recently called on the government to explore a new effective taxing method to ensure proper collection of import tariff on tiles imported from China to help the local tile industry. But, the government revenue authority could not invent any solution.

Exports rise in prominence

Manufacturers like Prime, which was heavily depending on the domestic markets, are now looking for expansion of export market, expecting a favourable impact of the massive anti-dumping measures being taken by European Union, South Korea, Brazil, Argentina and others, against Chinese tiles.

Manufacturer Profile

Taicera Tiles

Established in 1994

Location: Go Dau, Phuoc Thai, Long Thanh, Dong Nai

Status: Wholly owned Taiwanese investment

Products: Ceramic tiles, such as, polish, rustic, glaze porcelain, and soft polish, floor and wall glazed tiles, border tiles, decoration tiles, supplying for large buildings, Villa, etc. Taicera also produces Spain based Keraben brand tiles for global markets under Taicera Keraben partnership.

Markets: Domestic and export markets.

Thach Ban JSC

Established in 1959

Location: Longbien, Hanoi

Products: Porcelain tiles. Polished, rustic, rock, and glazed tiles with the dimension of 300x300, 400x400, 300x600, 500x500, 600x600, and 600,900mm.

Markets: Domestic and export markets. Export destinations include, to Australia, Japan, South Korea, Taiwan, Norway, England, Canada

TOKO Vietnam Co Ltd

Established in 2003

Location: Tan Quang, Van Lam, Hung Yen

Products: Glazed ceramic floor tiles with dimensions of 40 x40 and 50x 50 cm sizes, with a polish, matt, rustic, pattern, wooden or marble surface amongst others.

Markets: Domestic and export markets

ChangYih Ceramic Joint Stock Company

Location: Nhon Trach, Nhon Trach, Dongnai

Products: Ceramic tiles

Markets: Domestic and export markets

NorcoTiles (Vietnam) Co Ltd

Location: Near Ho Chi Minh City.

Status: Australian investment

Products: Ceramic tiles. Unglazed, residential, commercial, and industrial, natural clay tiles, for niche floor, paving and wall tile markets worldwide.

Markets: Domestic and export markets.

Cosevco Ceramic Tiles JSC

Location: Lien Chieu, Danang City

Products: Ceramic tiles.

Operates since 1996 as one of three first factories of the whole country produced ceramic tiles with the capacity of 4,5 millions sq metres per year.

Markets: Domestic and export markets. Export destinations include Japan and Thailand, among others.

Freya Tiles

Location: My Xuan A, My Xuan, Tan Thanh, Ba Ria-Vung Tau

Products: Ceramic tiles

Markets: Domestic and export markets

Chang Yih Ceramic Joint Stock Company

Established in 2000

Location: Nhon Trach, Dongnai

Capacity: 7 million sq meters per year

Technology: Uses Italian SACMI and SITI pressing machines and kilns and Roto Color System Printing.

Products: Quality fake wood ceramic floor and wall tiles

Markets: Domestic and export markets. Importing countries include Korea, Taiwan, Japan, Singapore and Australia.

Vietnamese Ceramics JSC

Location: Trangan, Dongtrieu, Quangninh

Products: Ceramic tiles, specially, standard quality terracotta tiles, which include terracotta floor tiles, terracotta wall tiles, terracotta step-nose tiles, 'terracade' façade and panel tiles and terracotta roof tiles.

Markets: Domestic and export markets. Export destinations include Southeast Asian countries, China, Middle East, Australia NZ, among others.

Royal Ceramic Tiles Co

Location: Vung Tau, Ho Chi Minh City

Products: Ceramic floor and wall tiles which include polished and rustic tiles.

Markets: Domestic and export markets. Export destinations include Cambodia, Laos, Korea, Malaysia, Indonesia, Thailand, Saudi Arabia, UAE, USA.



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The company is also strengthening search for new markets as benefits to be available from anti-dumping cases against Chinese tiles will not continue for long as the Chinese manufacturers are looking for relocation to the countries where cheaper workers are available to reduce production cost for fair competition.

Concentrating chiefly on the domestic market, Prime Group became the ninth largest manufacturer of ceramic tiles in the world last year. Currently it has a production capacity of about 70 million sq metres per year, while previously it made fortune by utilizing about 90 percent of capacity.

Compared to sales in the domestic markets, its exports were insignificant. The increase exports, Prime will upgrade its products and will add new designs and innovations.

The domestic oriented Prime is finding large-scale exports difficult without launching of new products for the particular markets. An export official of the company said on the condition of anonymity that the company needs time to meet the global demands with suitable products and to reposition its marketing strategy aiming largely at the global markets.

Prime is more or less characteristically similar to domestic market oriented regional majors like Dynasty Ceramics of Thailand and India's Johnson India, but it has more competitors in domestic and export markets both.

According to a top Prime official, the Group already feels the desire to innovate to improve itself, to reach every corners of the world, and to upgrade products to promote the Prime brand globally.

Viglacera plans for overseas

Vietnam's prominent ceramic tile producing-exporting concern, state owned Viglacera Corporation, is also planning larger exports. Viglacera, which has several ceramic tile manufacturing units, have markets in many countries since a long time. Some other manufacturers of different types, such as, Taicera Tiles, Thach Ban JSC, Chang Yih Ceramic Joint Stock Company, also have significant presence in the export markets.

The export prospect of ceramic tiles is however not impressive to everyone related to the building material industry. In addition to environment activists, all concerned public officials are not quick to approve it, until it is proved to be compliant to environment and society. Building Materials Institute's Long agree that larger exports of ceramic tiles could be helpful to the country, but he is skeptical about the real impact on the environment and higher consumption of fossil fuels.

"Building materials are products that use mineral resources, consume a lot of energy, pollute the environment and generate low economic value," he argued.

Prime corporate officials said their company is taking care of the environment and so far they have spent a lot on technology and environmental safety.

The manufacturers in Vietnam believe that if the cheaper and smuggled Chinese tiles' influx is checked and Vietnam's present trend of exploring export market abroad is strengthened, the manufacturers will graduate to more efficient exporters as well as domestic market caterers, without causing any negative impact on environment.

"We are laying our stress on growing as environment friendly and compete globally with right products and right prices," said Nguyen Hung Anh, President, Toko Vietnam Company

Manufacturer Profile

Guocera Tile Industries (Vietnam) Co Ltd

Status: A joint venture between Guocera Holdings Sdn Bhd under Hong Leong Industries Bhd of Malaysia and Vietnam's Infrastructure Development and Construction Corp.

Investment: US\$14.5 million

Location: Dong Nai

Products: Porcelain tiles

Markets: Domestic and export markets

Thaibinh Ceramic Tiles Company

Location: Dong Lam, Tien Hai, Thai Binh

Products: Ceramic floor and wall tiles.

Markets:

Dong Tam Ceramics & Tiles Co

Location: Bien Hoa City, Dong Nai

Products: Glazed ceramic tiles.

Trademark/brand: Dongtam is a leading and prestigious trademark in tiles since last four decades.

Markets: Domestic and export markets.

Hue Restoration Pottery Enterprise

Location: Hue City, Hue

Products: Ceramic specialty tiles. Reputed for application in the restoration of ancient buildings by providing special kind of tiles like Luu Ly tiles.

Markets: Domestic and export markets

Tin Nghia Brick & Tile Co

Established in 2004

Location: Nhon Trach, Dongnai

Products: Ceramic tiles

Markets: Domestic and export markets.

Ltd, a Van Lam (Hung Yen) based tile manufacturing company. Nguyen told Asian Ceramics that his company is determined to manufacture globally accepted products to stay in the market.

The current trend of exports indicates that Vietnam may soon become a major tile exporting country. It was able to export surplus tiles in the past years, as buyers were available, although, there were hard bargaining for buying cheaper. The high inventory, because of unsold stock and higher production, of 2011 was a great burden, but Vietnam was able to reduce inventory by increasing exports.

Quoting Vietnam Department of Customs, VIBCA said Vietnam exported US\$185 million worth of ceramic tiles in 2011, compared to US\$120 million of 2010. The export potentials suggest opportunity of investment for exports in tile sector.

Vietnam has dozens of tile manufacturers, many of which are small and medium enterprises (SME) to meet the demand of the domestic markets, but larger manufacturers, some of which are foreign owned, including those of the state owned units, have opportunity to manufacture at competitive cost for export markets, said some manufacturers.

In recent meetings of the Ceramic Industry Club of Asean (CICA), the Vietnamese tile manufacturers tried to convince the other ASEAN countries' tile manufacturers to give them access to visit and study production activities in their factories to help integrate with other CICA partners, according to VIBCA.

Some of the CICA country chapters confirmed Asian Ceramics that CICA is positive about integrating the manufacturers in the CICA member countries through investment participations to strengthen the manufacturing base in the CICA region for benefits of all, and to check unfair competition from other non-ASEAN, particularly, Chinese rivals.

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Vietnam's exports of unglazed ceramic tiles during 2007–2011 (US\$)

HS Code	Vietnam's exports of unglazed ceramic tiles. Product label	2007	2008	2009	2010	2011
690790	Tiles, cubes and sim nes, unglazed ceramics	50,960	45,200	32,832	40,433	46,853
690710	Tiles, cubes and sim <7 cm rect or not etc, unglazed ceramics	66	8	39	4,250	4,872

Vietnam's imports of unglazed ceramic tiles in quantity (tonnes)

HS Code	Vietnam's imports of unglazed ceramic tiles in tons. Product label	2007	2008	2009	2010	2011
690790	Tiles, cubes and sim nes, unglazed ceramics	3,845	5,820	10,536	257,105	317,310
690710	Tiles, cubes and sim <7 cm rect or not etc, unglazed ceramics	110	361	84	154	60

Vietnam's imports of glazed ceramic tiles in quantity (tonnes)

HS Code	Vietnam's imports of glazed ceramic tiles in quantity. Product label	2007	2008	2009	2010	2011
690890	Tiles, cubes and sim nes, unglazed ceramics	22,901	37,244	45,954	131,129	159,060
690810	Tiles, cubes and sim <7 cm rect or not etc, unglazed ceramics	351	1,431	682	867	308

Vietnam's imports of unglazed ceramic tiles from ASEAN countries (US\$'000)

HS Product code	Product label	Vietnam's imports of unglazed ceramic tiles from ASEAN countries, with value in 000 US\$.			Viet Nam's imports from Association of South-East Asian Nations (ASEAN)			Association of South-East Asian Nations (ASEAN)'s exports to world		
		Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011
690710	Tiles, cubes and sim <7 cm rect or not etc, unglazed ceramics	38				19,672	20,858	66	84	69,327
690790	Tiles, cubes and sim nes, unglazed ceramics	2,533				91,813	108,177	220	6,308	80,077

Vietnam's imports of glazed ceramic tiles from ASEAN countries. (US\$'000).

HS Product code	Product label	Vietnam's imports of glazed ceramic tiles from ASEAN countries, with value in 000 US\$. Product lab			Viet Nam's imports from Association of South-East Asian Nations (ASEAN)			Association of South-East Asian Nations (ASEAN)'s exports to world		
		Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011
690890	Tiles, cubes and sim <7 cm rect or not etc, unglazed ceramics	2,300				275,693	287,065	24,624	53,119	59,620
690810	Tiles, cubes and sim nes, unglazed ceramics	150				44,779	37,879	454	575	239

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