

# **A strategic opportunity in Indochina**

Presentation by:

**Mr. Hop Van CHU**  
**OmniHopson Pty. Ltd.**

Level 67, MLC Centre  
Martin Place, Sydney  
N.S.W. 2000, Australia  
Tel. (02) 260 0658  
Fax (02) 609 3785  
Telex AA72566



**OmniHopson Pty. Ltd.**

- Imports • Exports • Agents
- Manufacturers' Representatives
- Consultancy

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Sir Peter Abeles,  
Chairman & Chief Executive  
TNT/Ansetts Transport Industries

17 February 1989

## Opportunities in Vietnam

I take the liberty of outlining a strategic opportunity to take advantages of the air-routes **Air Vietnam** has and will have but has not been and will not be able to exploit, for lack of resources & expertise.

Air Vietnam's potentials can be fully exploited by either **TNT/Ansett** coming into joint ventures with Air Vietnam and/or signing a management/consultancy agreement with Air Vietnam.

The beauty of the proposal is that the same techniques can be replicated for other activities e.g. Vietnam's shipping, tourism, exports of raw materials (timber, minerals, seafoods, furnitures) & other infrastructure works etc. that have the best potentials to generate incomes (foreign currency) from which fee/dividend can be paid.

For air services and provided services & safety are comparable to other airlines, the overseas Vietnamese (more than 1 million, now living in the USA, Canada, France, Germany, Australia, NZ, Hong Kong, Taiwan & Singapore) are the best potential customers, for the immediate future. They are recent emigres and still have strong sentimental links with Vietnam. They are reasonably well-off and can afford trips to/from Vietnam often enough.

For medium terms, former allied Vietnam veterans (over 2 millions) could be passengers. Many of them will want to revisit Vietnam, this time for pleasures. Others will include those who visit **Thailand** and want to make **sidetrips** to Vietnam.

You will be aware that Vietnam is now opening and is keen on receiving investment & aid. It is a market of over 60 million people. If the proposal outlined here is taken up by TNT/Ansetts and concluded successfully with Vietnam, it will put TNT/Ansett, and Australia, on the ground floor, enhancing our chances to participate in other infrastructure developments that Vietnam will inevitably undertake.

I also take this opportunity to offer my service to help in the matchmaking. I believe I have the capacity to help pull off the deal for TNT/Ansett.

Being an Australian of Vietnamese background, I have followed the changes in Vietnam with strong interests. I have also spent a few years at senior level in the Australian Public Service and over a year as advisor to the former NSW Premier, therefore have a ready understanding of both the Australian and Vietnamese mentalities and am familiar with public administration and advisory work. These are crucial if the matchmaking is to be successful.

I received tertiary education (in America) in engineering and business administration. I have also been an entrepreneur, involving myself in a number of businesses. My overall aim, in all arrangements, is to create an arrangement in which everyone concerned benefits, as shown in the accompanied pages.

I believe we have to move before diplomatic relations between the USA and Vietnam are restored. This could take place at any time now, especially after the Vietnamese completes their withdrawal from Cambodia.

I also am of the view that we should move before the **Thais** do. There will be political incentives for the Vietnamese to deal with the Thais economically. The Vietnamese's aim is to tie the Thais in, preventing them from becoming an instrument of the Chinese's anti-Vietnam strategy.

I do hope TNT/Ansett will not let the window of opportunity to be taken up by non-Australian. I strongly believe if we move now, the probability of success will be great. I am not sure if it is still the case in 6 or 9 months.

Your Companies' decision to take up the opportunity, with me being the linking consultant, will be a successful combination.

Sincerely Yours.

H.V. CHU

# Taking advantage of Vietnam's aviation

## 1. Precedence

\* Years ago, when **Thai International** was born, the Thais were clever enough to convince **Scandinavian Airlines Systems** to form a relationship. That was in August, 1959. This association was instrumental in helping the Thais shorten their period of learning and had helped make it become a successful and respected international carrier.

\* People can still recall seeing, in the 1970s, promotion materials of Thai International carry the sign **SAS/THAI**. This **instantly** gave Thai International a respectability, which would not have otherwise, had the association with SAS did not exist.

\* More than a question of image, the Thais also had access to the best management methods and techniques, substantially eliminating the trials and errors it might have to go through. The world-wide sales network of SAS helped promote Thai.

\* In return, SAS had more income. They had better feeder network. They had a significant say in how Thai International were run. Both airlines had better purchasing power and reduced maintenance and operation costs by avoiding duplications and fostering coordination & sharing of equipments and other facilities.

\* When Thai International felt it had the confidence and experience, it went out alone, but no doubt a special relationship still exists between the two airlines. That took place in 1977

**We could repeat the experience by forming  
a partnership between TNT/Ansetts & Air Vietnam**

## 2. Objectives.-

The following objectives are achievable by TNT/Ansetts in pursuing the proposal outlined in this presentation :

\* To carve out a strategic position for TNT in Vietnam's and Asian aviation and in involvements related to cargo handling, tourism, shipping and other infrastructure development projects undertaken by Vietnam

\* To achieve more incomes, in the long run, for TNT/Ansetts by taking advantage of reciprocal air-routes that have been and will be accorded to Air Vietnam e.g. to France, Australia, Canada, USA, Thailand and Hong Kong. These are the countries where most of the 1-million plus Indochinese have been living. They will want to commute "home" and will generate the tourism business into Vietnam that. This could easily make Ansetts become a strong regional airline, in the next 10 years or so.

\* To pre-empt the Americans before diplomatic relations are normalized. There is a likelihood of some form of aid when normalisation takes place. Over USD 3 billions were promised in the Paris Accord in 1973 which, if carried out to a certain degree, will pull in many American "capitalists", including American airlines which will want to fly the more than 600,000 Indochinese Americans "home", to and from. Rumour has it that the Bush Administration is discreetly studying the possibility of diplomatic relations. A statement is expected toward the end of the year.

\* To help put TNT/Ansetts, and Australia, on the ground floor NOW, enhancing the chances to participate in many infrastructure development projects (ports, railways, communication, roads, cement factories, shipping, agricultural, steel plants ....) that Vietnam will definitely undertake.

\* From Air Vietnam's point of view, an opportunity to be piggy-backed to the modern world of aviation which it wants but is unable to pay for and will not have the necessary skills and the confidence in itself and that of potential passengers for many, many more years to come.

### 3. The concept.-

An arrangement in which incomes will be derived from new services to pay for the services Air Vietnam receives and in which:

\* Air Vietnam gets the skills, the know-how, access to new management/ capacity and technology, training & services it wants and does not have to pay for them from existing sources of incomes. The payments will be all from future incomes, from routes & services which it would not be able to exploit otherwise.

\* TNT/Ansett can "fly" (by proxy) many international routes, integrating (locking) Air Vietnam into the international TNT's & Ansett's thinking, management methods and planning, achieving better utilization of resources, higher prestige and more revenues.

\* TNT/Ansetts will help make Australia to be seen as helpful and as a result, will help Australia have better access to a 60 million plus people market.

### 4. Arrangement

There are two options, depending on the strategic objectives of TNT/Ansett and the thinking of the Vietnamese side. The options appear to be:

#### First option

" TNT/Ansett (its aviation arm) and Air Vietnam establish a new international airline for Vietnam, with the Australian holding a minority interest, say, 30%. After 10 years, TNT/Ansett shares could start being bought back by Air Vietnam during a further period of 10 years.

"TNT/Ansett then separately signs an agreement with the new airline to provide services e.g. management, administration, traffic and sales, operations, finance, passenger service and handling, acquisition and financing of equipment, staff training as well as general forward planning. This will generate incomes sooner than the equity investment.

#### Second option

" TNT is to sign a management/consultancy/cooperation contract, long-term (15, 20 years), to help build up and manage Air Vietnam in their services, especially their international routes, providing services as mentioned above.

## 5. Payments

"For the services provided, Air Vietnam (or the new airline, in the first option scenario) will pay TNT/Ansett, for the contractual services received, proportions of incomes derived from all international routes which Air Vietnam or the new airline (in the first option scenario) will be exploiting "

The **practical operational arrangement** , in both cases, is for the relationship to be as if **TNT/Ansett had an equity share in Air Vietnam or the new airline** in the second option scenario. TNT/Ansett is to help Air Vietnam negotiate, service and manage the routes.

## 5. Practical outcomes:

- \* Air Vietnam is exposed to new technology and management techniques without having to pay from the existing resources (which they have none anyway).

- \* The payments from Air Vietnam or the new airline, will be in the form of proportions of incomes from the international routes it has or will have .

- \* TNT/Ansett effectively becomes the senior partner in the operations, because of its expertise, financial clouts and international contacts, giving it a chance to exploit Air Vietnam's international routes by proxy.

- \* TNT/Ansett then should consider getting involved further in downstream activities e.g. hotels in Vietnam, tours organisation and promotion, catering, servicing & maintaining other international airlines landing in Vietnam, tax-free stores and limousine services.

- \* The new airline should be able to pay dividend a few years down the track and the shares appreciated in value when Air Vietnam takes up the option to buy.

### **Also important, from Australia's national interest ,**

- \* The succesful negotiation of this scheme puts us (Australia) in an excellent position to propose similar arrangements for other infrastructure development projects such as shippings, telephone modernisations, cement & pharmaceutical & chemical & refinery & steel plant constructions and management. Australia will likely to be the preferred foreign partner if we move quickly enough NOW.

**N.B. We have to be quick. There may be others (Thai International or SAS !) on the way. Everyone is scrambling or positioning themselves. The window of opportunity to be on the ground floor will not be open for too long. The Vietnamese will get more sophisticated and negotiation with them will be more difficult.**

## The SAS/THAI EXPERIENCE

\* Lacking international know-how, inferior equipments on the ground and in the air, together with limited marketing experience made the **Thai Airways Company (TAC)** suffer serious losses before 1958.

\* Various remedies were tried. A contract was signed with **Pan Am** to supply technical & management staff for 3 years but losses continued. Dissatisfied with Pan Am, TAC tried to negotiate with **Northwest Airlines** but the American Government did not approve it.

\* A chance courtesy visit by a senior officer of **Scandinavian Airlines Systems (SAS)** to the General Manager of TAC led to the discussion of the trend then of joint utilization of flight equipments, spare parts, spare engines, workshops, ground facilities and co-ordinated timetables, among international airlines.

\* Then the idea clicked in both of them "why not do what is being discussed ?" The idea of coming together occurred to both of them.

\* Many more discussions between the two companies followed. Finally, in August, 1959, TAC signed an agreement with SAS to set up a new international airline for Thailand i.e. **THAI INTERNATIONAL**. SAS held 30% and Thai Airways Company had 70% of the shares. A Thai national became the Managing Director, with a Scandinavian Executive Manager. SAS sales offices throughout the world were given the tasks of promoting **THAI INTERNATIONAL** products.

\* The agreement would run for 15 years (later extended to 17), and during the latter part of the agreement, the SAS shares could gradually be taken over at par value by TAC

\* In 1960, another service agreement was signed, under which SAS undertook to provide **THAI INTERNATIONAL** with various services related to administration, traffic and sales, operations, finance, passenger service and handling, acquisition and financing of equipment and forward planning in all.

\* A number of executive positions were held by SAS employees with know-how to enable the achievement from the outset an experienced organisation and on-the-spot training from the top down. The first flight took off in May 1960.

\* The new airline suffered losses for the first four years and made the first profit in 1964 and have been posting profits ever since.

\* 1977, TAC completed the buy-back arrangement and now **THAI INTERNATIONAL** is one of the most successful international carriers, imagewise and moneywise.



## Travels to Vietnam

It is worth noting that:

\* All flights to/from Vietnam from Bangkok are fully booked. Visitors to Vietnam often have to book 2, 3 months in advance. At the present time, **Thai International, Air France and the Philippines Airlines** have flights to Vietnam .

\* Most passengers try to fly in & out of Vietnam by airlines other than Air Vietnam, but often on outbound flights from Vietnam, many have to fly Air Vietnam partly because of the "gentle" pressure applied. It appears that Air Vietnam has only 2 planes operating at any moment, on its international routes. They are very poorly furnished.

\* To go around the organized political opposition of the regime by many Vietnamese overseas and the travel ban by the US Administration, the Vietnamese Government will issue "laissez-passer" to any Vietnamese who want to visit Vietnam, in Bangkok, Manila and Hong Kong.

\* There is a rush to visit Vietnam now, by the overseas Vietnamese . They go back to visit either for sentimental reasons, or to take up business opportunities in trading. The number of visitors is likely to grow astronomically in the years ahead.

\* **Air Vietnam** now only flies to Bangkok and Manila, the latter on a monthly basis. The types of planes used are said to accommodate about 100 passengers. They are in poor conditions. Theoretically, Air Vietnam now may fly to Hong Kong and Kuala Lumpur. With a bit of negotiation, Air Vietnam should be able to fly to Paris & Peking.

I would imagine, further negotiations can secure their flights to Singapore, Australia, Korea or Canada. Normalisation of diplomatic relations could take Air Vietnam to the USA. The critical question is their ability and passengers' patronage, both of which could be enhanced by itself linking with a respected, well-known and experienced aviation company.

## ABOUT MYSELF

**1. Personal:** 42 years of age, wife & 2 children (8 & 12)

**2. Education:**

- \* Tertiary education in the USA. Obtained B.S. in Chemical Engineering and completion of most of the requirements for an MBA, 1972.
- \* Very active in student politics while at university.

**3. Further training:**

- \* Community development, University of Missouri, 1967.
- \* Management & Administration, McBer Company, Boston, Massachusetts, 1972.
- \* Management Methods, Shell Eastern, Vietnam, 1973.
- \* Public Speaking, Sydney 1982.
- \* The Practice of Management, Sydney 1984.

**4. Career**

- \* 1988-89: Own business - printing, publishing, import/export agency & consultancy.
- \* 1987-88: Special Advisor to the NSW Premier, on Community Affairs.
- \* 1982-87: Department of Immigration - last position: Director, Community Affairs.
- \* 1979-1982: Publisher & Editor of the first Vietnamese Weekly Newspaper, the Bell of Saigon.
- \* 1975-78: Retained as expert on petroleum distribution/transport by the new communist regime.
- \* 1972-1975: Shell (Oil) Vietnam - last position: Assistant Transport Manager.
- \* 1970: Esso - Technical trainee, Bayway Refinery, New Jersey, USA. Taxi driver.

**5. Business:**

- \* 1979: Publisher, the Bell of Saigon, the Vietnamese Weekly.
- \* 1980: A retail fabric shop & parcel freight to Vietnam.
- \* 1984: Through wife, involved in an exclusive distribution agency for a number of Chinese herbs in Australia, the USA and Holland.
- \* 1984: Through wife, setting up a printing & desktop publishing business.
- \* 1988: Publisher, a Vietnamese Business Newsletter.
- \* 10, 1988: Setting up the import/export agency/consultancy business.

**6. Hobbies**

- \* Social & political issues.
- \* Readings.