

I. Situation of International Civil Aviation

The world civil aviation is facing a serious crisis caused by great losses because of increased price of fuel, keen competition from new comers and numerous plane crashes.

1. Losses

The International Air Transport Association reported that the loss to the world civil aviation in 2005 amounted to US\$7.4 billion, higher than the 6-billion mark suggested in May 2005 when the oil price stayed at US\$47 per barrel. Thus the total loss of the industry in 2001-05 reached a record level of US\$43.4 billion.

The American third and fourth largest air transport companies – Delta Airlines and Northwest Airlines – have filed for bankruptcy because they couldn't repay debts. Delta's debt rose to US\$20.5 billion as compared with its assets of some 21.6 billion. Delta will become the ninth American airlines that went bankrupt in the history. Before them, two well-established American airlines – American and United Airlines – were also on the brink of bankruptcy.

- Effects by the increased price of fuel: Many airlines suffered losses in recent years because of the increased price of oil that rose to US\$75 per barrel on Aug. 9, 2006, and then fell slightly and stayed at US\$68 on Sep. 6, 2006. When the oil price rises by one dollar, airlines have to spend some one billion more. The expense on fuel in the aviation industry is shown in the following table.

Table 1: Changes in the price of fuel

Year	Oil (US\$ per barrel)	Expense on fuel by airlines (US\$ billion)	Compared with previous year
2003	22	54.27	
2004	31	63.28	+16.60%
2005	65	97.45	+54.00%
2006 (estimated)	75	107.46	+10.27%

Efforts by Vietnam Airlines to Expand its Operations and Integrate into the World Market

by NGUYỄN THANH TUẤN

When American airlines suffered a lot of losses and crises after September 11, Asian and European ones had to increase surcharge and ticket price; and take measures to reduce fuel consumption in order to cut losses during the hard time. The Singapore Airlines reported that they planned to increase the fuel surcharge by US\$5 per passenger per flight when the oil price tends to rise to US\$80 per barrel in the very near future while the British Airways had to increase its ticket price.

private airlines. Traditional airlines met with difficulties in dealing with this price war. Up to 2005, there were some 930 airlines in the world as compared with some 750 in 1995.

- Plane crashes: In 2004-06, plane crashes became widespread and frequent, causing some 1,200 deaths and casting a shadow on the industry that has once been considered as the safest. Recent plane crashes had various causes but experts suggest that it was a warning of poor safety and security tasks. Investigations of recent crashes



- Keener competition: Besides increases in fuel costs, international airlines also faced the keener competition when many cheap airlines made their appearance, such as Tiger Airways from Singapore, Thai Air from Thailand, Spring Airlines from China, Ryanair from Ireland, Easyjet from Europe and many other

show that technical problems and keen competition in the industry are two main causes. The AAPA annual report expresses a cautious optimism about the total sales of the industry. Other reports mentioned potential effects of the high price of fuel. It is really worrying because it could lead to low growth rates and decreasing

demand for air transport. Other causes mentioned by the reports are terrorism and the Asian bird flu.

2. Optimistic signs for the air transport in 2006-08

The ICAO issued a report on July 3, 2006 saying that the situation of the industry in the next three years, from 2006 to 2008, is still optimistic. In 2006, the air tourism gained a growth rate of 6.1% and this figure is expected to reach 5.8% in 2007 and 5.6% in 2008. Development of the air transport will take place in all regions and inter-regions. In the next three years, the air transport may gain the highest growth rate – 11% - in Africa and Middle East; 8% in Asia and somewhere between 2% and 3% in Europe and America. Andrew Herdman, AAPA Chairperson, says the growth of Asian – Pacific airlines is stable.



To gain the forecast growth rate of 8%, Asian airlines should focus on controlling expenses and overheads, exploitation of existing and new routes improvements in ways of doing business; including outsourcing and developing new services, in order to meet the increasing demand for air transport of passengers and cargoes. And the

Vietnam Airlines are among regional ones with high growth rates.

II. Directions for Vietnam Airlines in the Near Future

In the market and globalized economy, all companies have to make the best use of internal resources and promote international cooperation and integration. This is a long-term and essential policy. The problem is to choose a rate of integrating into the world economy that is appropriate to strength of the company and the national economy as well.

1. Vietnam economic situation

Many experts from the ADB have predicted that the Vietnam's growth rate in 2006 would be 7.8% and 8.0% in 2007. This institution also estimated the growth rate of 43 Asian countries at 7.7% in 2006 –

slightly higher than what it suggested in April 2006. Ayumi Konishi, ADB representative in Vietnam, said that increases in private investment, spending and export were main dynamics of the economic development in Vietnam. In fact, its export value in the first half of 2006 reached US\$28.8 billion

becoming the main direction of development for Vietnam. In 2007, its export is expected to rise by 18% thereby reducing the trade gap.

The ADB report, however, also warn us that the Vietnam's inflation rate might reach 8.3% because of cuts in price support to fuel trading and increases in prices of foodstuff, building materials and transport costs. In 2007, the inflation will keep rising.

Vietnam also faces another great challenge: corruption. The Government is trying its best to deal with this disaster.

In the past 10 years, the number of foreign visitors to Vietnam increased by 14 times. In 2005 this figure reached 3.47 million, an 18% increase in comparison with 2004. In the first seven months of 2006, the flow of foreign visitors amounted to 2,149,513 increasing by 7% compared with the corresponding period last year. Tourism development helped drive the economic growth which stayed at 7.4% in the past 10 years when the socialism-oriented market economy was introduced. The flow of foreign tourists to Vietnam is expected to rise to 8 million by 2010 after Vietnam gets accession to the WTO because more businesspersons will come to Vietnam on business.

To get prepared for such rapid changes in the market demand, the air transport business must beef up and upgrade its infrastructure all over the country. For the time being, principal airports in North and South Vietnam are enlarged and upgrade in preparation for such large-size jet planes as Boeing 747, Boeing 767, Airbus 320 and Airbus 321.

In such a situation, the Vietnam Airlines Corporation (VAC) makes some forecasts about the air transport market up to 2010: the flow of foreign visitors rises by 14% a year

and reaches 11 million by 2010; the flow of domestic passengers rises by 13% a year and reaches 6.8 million; foreign cargo rises by 18% a year reaching 373,000 tonnes; and domestic cargo rises by 10% a year and reaches 97,000 tonnes.

The VAC network of routes has a hub-and-spoke pattern in which Tân Sơn Nhất and Nội Bài play the role of hub airports and are becoming more competitive in the Southeast Asia beside other hubs, such as Bangkok, Hong Kong, and Singapore. The VAC will try to cooperate with international airlines to open new routes and improve its services in an effort to integrate more fully into the world market.

2. Main directions for the coming years

At present, route networks of the VAC can only satisfy part of the market demand for transport of cargo and passenger, especially to Europe, Australia and North America. Increasing the number of flights and opening new routes are matters of great importance to the VAC from now to 2010.

For the VAC, routes to Southeast and Northeast Asia are main ones that generate main revenue. Transcontinental routes have a strategic meaning in the long run to the VAC while domestic and Indochinese routes are its matter of life and death.

For Northeast Asian routes, the VAC will increase weekly flights to main cities in Japan, China and South Korea and use large planes in order to improve its competitiveness and efficiency. In the coming years, the VAC plans to open lines to Nagoya, Shanghai and some others cities in this region.

In Southeast Asia and South Pacific, the VAC keep ensuring two daily flights to Bangkok, Kuala Lumpur and Singapore; and one daily flight to Australia from Tân

Sơn Nhất; and start open the same routes from Hà Nội to these destinations. Its other targets are Bombay, New Delhi, Jakarta, Bali and Australian cities. Planes of medium sizes will be used for these routes with a view to ensuring high frequency of flights. Bigger planes could be used on routes with at least two daily flights, and on routes to Australia and India in order to compete against airlines that have to take transit at Singapore, Bangkok, Hong Kong or Kuala Lumpur.

In exploiting sub-regional routes, the VAC cooperates with its counterparts from Laos, Cambodia and Myanmar with a view to maintaining its competitive edge against the Bangkok hub and supporting longer VAC routes. On its trans-Indochinese route (Hà Nội-Vientiane- Phnom Penh – HCMC) the VAC plans to hold at least seven flights a week with planes of medium size, and open other routes connecting three countries in the peninsula along with a new one to Rangoon.

As for long trans-continental routes, the VAC will develop new ones cautiously based on stability of existing regional routes. In other words, the trans-continental ones will be considered as extension of regional routes that aim at reaching major markets in Europe, North America and Australia. Regarding the European market, the VAC keeps developing and upgrading routes to France, Russia and Germany. Its strategy for these markets is to open direct flights in order to compete against rivals that offer indirect ones with transit.

When conditions are good enough, the VAC will open routes to the UK and eastern Russia. For the time being, the VAC can't open new trans-Pacific routes to North America because the competition in this market is very keen while its

experience is limited. It will cooperate with Asian and American airlines to do market researches and enter into the market in the near future. In 2006 it plans to hold from three to seven flights a week to this region.

Its domestic routes will be reorganized in order to make them be closely linked with national transport and tourism industries and with international flights. The VAC will transfer local routes operated with small planes to the VASCO and it focuses on routes connecting Hà Nội and HCMC with six important destinations (Hải Phòng, Vinh, Đà Nẵng-Huế, Cam Ranh, Buôn Ma Thuột and Phú Quốc). Flights on routes from HCMC, Hà Nội and Đà Nẵng will be increased, especially international ones. Flights to Huế, Nha Trang, Đà Lạt, Phú Quốc and Hải Phòng will be connected with both local and international routes in order to meet the demand from tourists and local residents. There will be flights specializing in transporting cargo to Europe, the U.S., Japan and China. It is planned that a Vietnam Airlines Cargo will be established before 2010.

The VAC has worked out an investment plan for the coming years. The following are some of its target:

- Passenger planes: 47 units comprising 24 short-range planes (150 seats); 10 medium-range ones (250 seats); four upper medium-range ones (330 seats) and nine long-range ones (330 seats).
- Cargo planes: three units.
- VASCO (its subsidiary): 18 planes comprising 13 ones with less than 70 seats each; three planes for specialized purposes and two cargo planes.■

Reference:

- Reports from ADB, ICAO, APPA in 2006
- APPA Annual Report in 2006
- VAC Development Strategy for 2005-2010