HANSOL'S HYONG-WOO KOO SEES GROWTH IN NEW MARKETS FOR KOREAN PAPER COMPANY

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RECYCLING AND ENVIRONMENTAL RESPONSIBILITY HAVE BEEN GUIDING FACTORS

EDITORS NOTE: I WAS ABLE TO INTERVIEW HYONG WOO *Koo in his offices in Seoul, Korea, on a beautiful October afternoon. At the time, Koo had been president and CEO of Hansol Paper since it split from its parent company, Samsung, in 1991*. There is no official chairman in the Hansol Group, so Koo currently leads Hansol.*

Koo is a soft-spoken man, who smiles easily and speaks with great pride of the company he leads and the people who have been with that company. Hansol Paper had been part of Samsung, known world-wide as a major international company. In 1991, the paper holdings of Samsung were spun off into Hansol Paper Co., Ltd. This company is itself part of the Hansol Group of companies which are involved in everything from papermaking to finance and telecommunication. From initially trying every opportunity, the company is beginning to focus on its primary business units.

Koo is from the city of Masan, in the southeastern part of Korea. Koo worked for 31 years in the paper industry, including a couple of years in Germany and extensive visits to New Zealand to learn the most modern techniques of papermaking. His personal interests in recycling and the environment have shaped the technology and the focus of Hansol. Hansol Paper Co., Ltd. is leading the world in the production of recycled newsprint. Expecting to double its capacity in the next four years, it will become a leader in other grades of paper, too.

On a personal note, Koo is chairman of the Korea-Finland Economic Council. He received the "Commander of the Lion of Finland" commendation on October 17, 1997(the day of the interview). His enthusiasm for the success of Hansol is tempered with the knowledge that his competition is not from other paper companies as much as those who offer electronic alternatives to newsprint, copier paper, and printing/writing grades.

Hyong-Woo (Joseph) Koo, vice chairman of the Hansol Group and formerly president and CEO of Hansol Paper Co., Ltd.

Hansol is a company that prides itself on its environmental activism. Recently, the Korean government gave an award to Hansol Paper Co., Ltd. for its reduction in power consumption. Korea has grown so fast that power conservation is necessary so that industry can continue to grow as new powerplants are being built. Few major industries ever seek that kind of public awareness of their attempts to improve the situation of the country, not just their own market position.

*In December 1997, Koo had the great honor to be appointed as vice chairman of Hansol Group. Dong Cheon Cha has taken over the presidency of Hansol Paper.

TAPPI JOURNAL: What challenges face the Hansol Paper Co., Ltd. between now and the turn of the century?

KOO: Hansol is now shifting from the domestic market to producing for export. To do this, it is necessary for Hansol to develop special skills. Currently, Hansol has no major domestic competitors. Also, for Hansol, if they export, they are able to enlarge the total sales of the company.

Korea has changed dramatically since 1945 when it was liberated from the occupying power. During that time, domestic consumption has been the primary target of paper production. But now it is changed, overseas markets are becoming larger and larger and we want to export to those markets.

Also, the environmental problems have become much more important during that time. In the past, the public just wanted us to make better paper, but now we must pay keen attention to how we affect the public health and the environment. We would like to become a member of industry known for paying attention to the environment.

Now, as for the information-related market, there is a "war" between the printing industry and the electronic industry. Currently, the printing industry is strong, but we are always watching. It appears that the electronic side may grow faster, but paper will not stop growing. It all depends on which the people want.

TAPPI JOURNAL: If you are in a transition year from domestic to export focus, where are your best overseas markets?

KOO: China is the largest market, but there is much to consider. China is building its own paper industry, so Chinese paper may become a competitor in the future. We also export to India and elsewhere in Asia. A lot of the changes for Hansol are not just limited to how they make paper, but we are contemplating what is to be done to establish overseas markets.

TAPPI JOURNAL: What specific challenges face Hansol as it moves into the 21st century?

KOO: As we changed our focus from domestic production, to export, we have had to look at what will make us competitive in overseas market. Right now, 60% of our production is for domestic market and 40% is for the export. It is necessary for us to tune up our skills and infrastructure toward export. Also, Hansol would have to get into the shipping business in order to help export its paper products.

We must visit our customers more often and become more customer-oriented. Even though we have been regarded as a leader in producing recycled newsprint, we must become better. For instance, we produce linerboard from old corrugated containers (OCC), but we must manufacture it so that it can be exported. There exists new technologies needed for treating OCC and manufacturing linerboard, and we have to learn them.

We must also broaden the kinds of paper we make. For many years, newsprint has been our best profit center. But we must look to other kinds of paper to be exported. We are interested in copier paper, book paper and coated paper. Book paper is important in most Asian markets. We ought to examine the markets carefully before expanding overseas business.

TAPPI JOURNAL: Strategically, where do you see Hansol Paper in relation to other Korean and Asian paper companies in terms of growth potential?

KOO: Hansol's present status is strong, holding 25% of the domestic Korean market. However, for many years, Korean people have seen paper production as a polluting industry. Hansol has made efforts to protect the environment and wants to change that public perception. Although Korea is a small country, the Korean market has been strong and some kinds of paper is produced only by Hansol. We must learn how to improve our products and services so that we may compete in the offshore market.

Hansol is a major purchaser of equipment from Western countries. We have tried to stay balanced in our acquisition of machinery. Currently, we are operating paper machines made by Escher Wyss, Valmet, Voith Sulzer, MHI, etc.

Thus we have experienced the best of the world class technology, and we are trying to throw our best effort into how to recycle wastepaper. We have been successful at making recycled paper into newsprint, now we must look at how to make copier paper from wastepaper. This market is rapidly growing in Asia.

We expect to more than double the capacity of Hansol Paper by the year 2001, amounting to 5 million tons/year. This will be done by focusing on export and offshore markets. This will require, as always, new skills and new ways of doing business. We must not only make the paper, but explore customers for it as well.

We expect the domestic market to grow by 4% per year for the next several years. Our investment is directed at meeting that while still being able to export. Some projects are being designed for both domestic as well as export production.

TAPPI JOURNAL: Hansol is one of the largest paper companies in the world that depends almost entirely on recovered paper as its fiber source. Was this a strategic choice to use this lower cost fiber sources, or was it due to your location in Korea?

KOO: This was a strategic choice to make us a "green" company. We wanted to use all of the fiber in the best way and found out recycling is very effective. We started recycling in the 1970s and have continuously developed it ever since. Hansol started recycling more than 25 years ago. Recycling has been the strong point of Hansol.

In the 1970s, forest harvesting became very expensive in Korea, and government requirements for replanting led to increasing the amount of recycled fiber used. Hansol started at 3%, then went to 10%, 30%, and finally 50%. Now our goal is to use 85% by 2001. This came about in part due to my exposure to recycling in West Germany in the 1970s. I saw how they did it and wanted to try it at Hansol. We started recycling paper in 1972.

One interesting side effect has been that Oji Paper, Japan's largest paper company started using recycled paper extensively after a visit to Hansol and observation of its operation. They were very surprised to see how very much recycled fiber we were able to use.

Part of Hansol's management team: Hyong-Woo Koo, seated, with from left, Hwa Joong Yoon, general manager, strategic planning; Yung D. Woo, president, CTO, Hansol Institute of Science & Technology; D. K. Lee, manager, strategic planning

Hansol's strategy in the aspect of raw materials is to use wastepaper first, then virgin wood fiber. We have this strategy because we want to change our image from a "pollution" industry to an "environment-friendly" industry. Currently, we consume 1 million tons/year of waste paper, and 700,000 tons/year of mechanical pulp and chemical pulp. For us, the use of high-yield mechanical pulp is the goal. Thermomechanical pulp (TMP) is now being used in the so-called "wood-free" coated base-stock.

TAPPI JOURNAL: How dependent is the operation of Hansol Paper on recovered paper from the United Stated and other countries? Is that your only source or do you have many for recovered paper?

KOO: Hansol, like other Korean companies, uses less recovered fiber from the United States than in the past. In 1995, 50% of all recovered fiber came from the United States. This year it has dropped to 25%. We get waste paper from North America, Western Europe, Asia, Australia, etc., as well as Korea. As for Hansol Paper, wastepaper is a global industry.

Korea has become more interested in environmental issues and this helps us collect more paper for recycling. Also, as the Korean economy improves, the use of old newsprint (ONP) goes up, and in turn, makes it easier to recover more. OCC is also an important area for us. It is hard to get OCC, so we have begun to look for it in Korea and other nearby countries.

TAPPI JOURNAL: In your opinion, are companies with forest assets better positioned for growth than those who depend on market availability of fiber?

KOO: Let me start by looking at what Hansol has done with regard to reforestation. Hansol has invested in forests for the past 30 years, resulting in planting more than 40 million [trees] just in Korea. The Korean government has also encouraged paper companies to plant trees with a variety of incentives.

Unfortunately, it is true that plantations in Korea are much less competitive than that in tropical countries. In an effort to get international competitiveness, we have been involved in planting 20,000 hectares of eucalyptus in Australia and 10,000 ha of pine in New Zealand since the early 1990s.

Paper mills with their own forest assets are not influenced by market availability and have better competitiveness in manufacturing cost, so they are better positioned for growth in the long run. Although our priority, at present, is on recycled fiber and market virgin pulp, we are also considering integrated mills in the near future.

TAPPI JOURNAL: What is your vision for Hansol in terms of the growing markets in Asia and the Pacific Rim countries? Are you currently planning any expansions of existing facilities?

KOO: We have several projects that are under way in Korea. But, we have put some projects on hold until we check the market. Growth in the Korean market is one thing, but if we plan to export much more to other countries, we need to make the right kinds of paper.

Hansol must export more amounts in order to do a sustained growth in the future. With success in this attempt, Hansol Paper will be on an active position in the Asian paper markets.

TAPPI JOURNAL: Would Hansol ever consider locating production facilities in countries other than Korea to take advantage of fiber resources or market access?

KOO: We are investing in paper companies in China, Vietnam, India, etc. Our Shanghai newsprint project of 120,000 tons will come on stream in May 1998. The total investment amounts to US$ 132 million. We also participated in a project in Vietnam to produce 50,000 tons/year of kraft paper.

Right now we are working on several joint ventures in northern China, India, the Philippines and so on. Hansol expects to have more than 5 million tons/year of total capacity in the early 21st century. That capacity will mainly come from production facilities in Korea and other Asian countries.

TAPPI JOURNAL: What distinguishes Hansol from other pulp and paper companies?

KOO: There are four points that distinguish Hansol from other paper companies.

First of all, Hansol always puts an emphasis on teamwork. Under the Asian culture, we have consolidated our organization based on traditional family relationships, since we separated from Samsung in the period of great uncertainty in 1991.

Second, Hansol did not miss opportunities with the fast economic development and press liberalization of Korea. Hansol was eager to install paper machines in order to meet the increased demand of paper which resulted from the fast economic growth and the increase in pagination of newsprint.

Third, compared with Western companies, we are more familiar with the Chinese market in terms of geographical and cultural aspects. As you know, the Chinese paper market has shown a great potential to the world pulp and paper industry. Needless to say, China is one of our long-term investment targets.

Fourth, Korea is a divided country at present. We are sure that Korea will be unified in the near future. We estimate that the growth of the Korean paper market would be tremendous after the unification. In the first step, the growth in quantity would be obvious and consumption structure would be changed.

TAPPI JOURNAL: What do you consider to be the greatest accomplishment of Hansol?

KOO: Hansol's greatest accomplishment is recycling. The history of Hansol can be said to be the history of modern recycling. The future is to use more recycling to protect the environment, not only in Korea but also in Japan and other Asian countries. Hansol has become a model for other Asian countries that lack the essential wood resources.

TAPPI JOURNAL: What do you see as TAPPI's role and how can it better serve the industry?

KOO: TAPPI has been too domestic, so it needs to be more international. TAPPI can arrange a selection of topics for the journal and meetings that are more suitable to the Asian pulp and paper industry in scope and outlook. **TJ**

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