



DISCOVERY

THE QUARTERLY NEWSLETTER OF KOCH COMPANIES

OCTOBER 2007

On a Roll

A Georgia-Pacific subsidiary is the proud new owner of a world-class containerboard mill in Brewton, Alabama.

The mill and its related assets were purchased on Sept. 28 for \$355 million.

(By way of comparison, that's more than it cost to acquire five wood products facilities from International Paper earlier this year.)



These rolls of bleached board weigh about 20 tons each.

The Brewton mill has about 500 employees and was previously owned by Smurfit-Stone Container Corp. It began operating in 1957.

Brewton, the county seat of Escambia county, is about 10 miles north of the tip of the Florida panhandle.

What does it make?

In an average year, the Brewton mill can produce about 300,000 tons of white top linerboard and 190,000 tons of solid bleached sulfate.

White top linerboard is used for high-end packaging and point-of-sale displays. It gets its name from its surface, which holds up well to most color printing processes.

Solid bleached sulfate is paperboard that is white all the way through, not just on top. Most SBS ends up in folding cartons for food, pharmaceuticals and cosmetics.

Why buy?

Although GP already owned more than 60 facilities involved in packaging production, including one in Alabama, the company was eager to acquire this asset.

According to Jim Hannan, president and CEO of Georgia-Pacific, the Brewton mill "has a great reputation for safety, for being cost-competitive and for producing very high-quality products."

"Investments in our packaging business, such as this mill, are a key part of our growth strategy," Hannan said.

"In fact, we continue to see opportunities for growth in each of Georgia-Pacific's businesses."

"The Brewton mill helps us to do more than just grow," added Christian Fischer, GP's executive vice president of packaging. "It allows us to improve the breadth of products we can offer our customers."

Will GP make similar purchases in the future?

"Absolutely," said Hannan. "We are committed to growth – organically, through acquisitions and innovation."

"This isn't the last time you'll hear about us making long-term, strategic investments in our businesses." ■

 www.gp.com

THIS ISSUE...

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On behalf of our council of the Boy Scouts of America, I want to thank you for the donation of 24 rolls of used firehose in good condition.

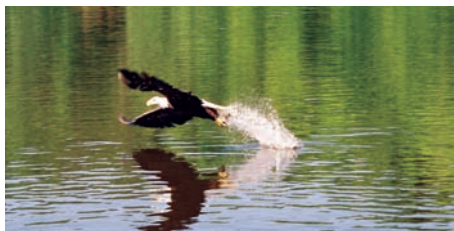
Our Boy Scouts have laid miles of water line on hillsides and along ridgetops that provide water for wildlife, livestock and thirsty hikers in remote areas.

There is no practical way to bury all that tubing, so we cover it with used firehose which prevents solar degradation, provides some protection from range fire and keeps the water a bit cooler.

We greatly appreciate this gift.

Dan Damon, Ranger
Buffalo Trail Scout Ranch
Toyahvale, Texas

The firehose was provided by the FHR (formerly Huntsman) facility in Odessa.



Couldn't help but notice the eagle on the top of July's *Discovery* newsletter.

I took this photo a few weeks ago on the Wisconsin River near Rhineland. A pair of eagles has nested there for several years. Feel free to use it.

Ron Michaels
Flint Hills Resources
Stevens Point, Wisc.



I just finished reading the article "Making matters worse" [about misguided energy policies] in the July 2007 *Discovery*. I would like to share it with some friends and family members. Is that possible?

Karen J. Ogden
Contract Manager
Pine Bend Refinery
Rosemount, Minn.

Although *Discovery* is written for employees of Koch companies, it is not a confidential document. Feel free to share its contents. Thanks for asking and for applying our compliance culture to make sure you were doing the right thing.

As a participant in the Leaders and Liberty Honors Symposium for students, I would like to thank you for your generous contributions to the Bill Of Rights Institute.

Your donation enabled me and many other students to engage in intriguing seminars pertaining to the formation of

our Constitution, a topic we unfortunately do not get to cover extensively in school.

Michael Cammarata
Hayfield Secondary School
Lorton, Va.

Thank you so much for giving me a Fred C. and Mary R. Koch scholarship. It will be extremely helpful in paying for my education at William Carey University.

I really appreciate all that Koch has done for my family. You have not only given me a chance to further my education, but when Hurricane Katrina hit, you all provided aid and support to the Taft plant in Louisiana where my Dad works. It was a blessing.

JoHelen Trisler
Gonzales, La.

This year, 205 students were awarded \$1,500 Fred C. and Mary R. Koch scholarships.

On the Cover:
Employees pose in front of the first reel to be produced at Brewton under GP ownership.



Sept. 21 - Cowboys at the Spring Creek Ranch (left) and KS&T employees in Rotterdam (above) were among the thousands who celebrated Founder's Day by enjoying some chocolate cake and watching a special message from Charles Koch.

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KOCH INDUSTRIES INC

Shanghai - INVISTA continues to grow its presence in China as it responds to strong demand for synthetic fibers in the Asia Pacific region.

On June 28, an INVISTA subsidiary acquired a nylon 6 BCF business from Honeywell, including its plant in Shanghai.

That plant produces bulked continuous filament, which is used to make carpeting for homes, offices and cars. Seat belts are also made from BCF.

"This plant in Shanghai has technical capabilities and operational resources complimentary to INVISTA's plan of enhancing the value we provide to our customers in the Asia Pacific region," said Dan Stone, president of INVISTA Performance Surfaces and Materials.

In addition to the former Honeywell plant in Shanghai, INVISTA currently owns or operates 11 other manufacturing facilities in Asia, including sites in Taiwan, China and Singapore.

Perth - Australia is facing its worst water shortage in more than a century.

In the Murray-Darling Basin, home to more than 40 percent of Australia's agricultural production, farmers are receiving as little as 10 percent of their normal water allocation.

Sydney, the nation's largest city, imposed mandatory water restrictions in 2003.

In response to this drought, Australian businesses and cities are investing in upgraded wastewater treatment facilities. These plants make it possible to reuse precious water.

Several of these new facilities rely on PURON™ submerged membrane modules and MegaMagnum® reverse osmosis elements. Both are produced by Koch Membrane Systems.

A combination of these two technologies was recently installed at a malting plant in Perth, Western Australia, that provides products for breweries. The quality of treated wastewater there is as good (or better) than local tap water, allowing it to be reused in the plant.

On the other side of the continent, in the Bega Valley of New South Wales, KMS's submerged membrane technology allows treated wastewater, rather than municipal drinking water, to be used for irrigation.

And in Queensland, the Bundama advanced water treatment plant features the world's largest installation of KMS's



Pune - M.S. Unnikrishnan, managing director of Thermax Limited, and Peter Williams, vice president of sales and marketing for Georgia-Pacific Chemicals, shake hands after signing a seven-year licensing agreement.

MegaMagnum technology.

When Phase 2 of construction is completed next spring, the Bundama plant will supply almost 20 million gallons of clean, recycled water per day for industrial use.

Pune - Atlanta-based Georgia-Pacific Chemicals LLC has signed a seven-year licensing agreement with India's Thermax Limited.

The agreement allows Thermax to offer GP's chemical technologies to paper manufacturers in India and throughout Southeast Asia.

Thermax will import GP's specialty chemicals for several months until its manufacturing facility is able to produce those chemicals using licensed technology. ■



A single MegaMagnum® unit from KMS, such as this installation in Australia, can produce 500,000 gallons of reusable water per day.

More of everything?

No matter who you are or where you live, it seems there is a politician willing to promise you more of everything.

This is increasingly true in the United States, where the next presidential election is just a year away. Presidential candidates in both parties have already made grandiose promises about what they will do when elected.

Universal healthcare (Edwards) and safer cities (Giuliani) are just around the corner, they say. So are energy independence (Clinton), better education (Thompson), a better environment (Obama) and better retirement (Romney).

But at what cost? And paid for by whom?

You can doubt the effectiveness of political programs and promises, but there can be no doubt about who has to pay for them: taxpayers.



Sage advice

President Thomas Jefferson had strong words about the perils of paying for out-of-control government programs.

“We must not let our rulers load us with perpetual debt,” he warned. “Taxation follows [public debt], and in its train wretchedness and oppression.”

Jefferson – indeed, any of America’s founding fathers – would surely be mortified to see how much debt taxpayers are facing today.

In 1975, the first year of the so-called Budget Control Act, U.S. public debt totaled \$545 billion, or about \$2,700 per person. Today, total public debt is \$8.7 trillion, well over \$32,000 per person.

Why is public debt so high? Because more and more government programs require more and more funding.

The U.S. government’s legal debt limit is \$9 trillion, but limits don’t mean much when politicians keep raising the debt ceiling, as Congress has done four times since 2002.

Sad to say, public debt is only the tip of the iceberg. Even more sobering are the unfunded liabilities facing American taxpayers.

The future costs of Medicare, Social Security, government and military pensions, and other government debts now total more than \$59 trillion.

That’s a liability of well over half a million dollars for every U.S. household, more than enough to bankrupt the average American family.

Paying off that debt over time, like a mortgage, would cost each U.S. household an estimated \$31,000 a year for 75 years.

Trouble x 50

The same troubling trends can be seen at the state and local level.

In Kansas, home to Koch Industries’ headquarters, the state’s debt in 1992 was around \$424 million. That was a below-average total for a state of Kansas’ size.

By 2005, the state’s debt had swelled to \$3.95 billion, an increase of nearly 832 percent in just 12 years. That’s the second-highest rate of increase among the 50 states.

Kansas also has the dubious distinction of being number one for growth in government jobs. The state added 17,200 government jobs over the last year. Most of those new jobs are at the local level.

Today, government jobs make up 19 percent of the workforce in Kansas.

The cost of an education bureaucracy is another area of concern.

From 1972 to 2002, the number of students in Kansas public schools actually declined 1 percent. During that same 30-year period, the number of school administrators jumped 95 percent.

To pay for all this, state spending is up 9 percent this year, even though population growth in Kansas is less than 1 percent.

Kansas has increased its state spending by \$1 billion over the last two years.

Revolution

It doesn’t have to be this way.

In his book, *The Science of Success*, Charles Koch points to Ireland as an example of what can happen when a government decides to break out of the “borrowing, spending and taxing spree” needed to pay for endless government programs.

In the 1990s, the Irish gave themselves a dose of strong medicine. They rethought protectionist policies, such as high tariffs, and took the even bolder step of reducing corporate tax rates from 50 to 12.5 percent.

Opponents predicted disaster. But what happened then?

The economy grew by more than 80 percent, unemployment fell from 18 percent to 5 percent, productivity tripled, and Ireland became the second-most prosperous country in Europe.

Similar changes may be afoot throughout the European Union, where government programs are among the most costly and inefficient in the world.

Continental shift

Newly elected French President Nicholas Sarkozy has already started to challenge the concept of endless government benefits and a culture of entitlement.

France, he says, has been living beyond its means and cannot afford to continue doing so.

Sarkozy has the unenviable task of wrestling with policies, many dating back to the time of Napoleon, that are fervently supported by millions of civil servants (as well as former President Chirac).

Many of those government workers are up in arms over proposed changes that would deny them the ability to retire at age 50 with full benefits.

Sarkozy prefers to promote and reward civil servants based on their performance rather than their seniority.

Christine Lagarde, France's new finance minister, supports this common-sense policy. She is on record as saying it is time to change the French "psyche" when it comes to work.

Retired at 37

The need to embrace change is also apparent in Italy, where citizens are complaining about government workers who can retire with full benefits in their late 30s.

Relying on the government to pay for such rich benefits comes at a high cost.

In recent years, Italy has had to spend about 14 percent of its gross domestic product on public pensions, compared to about 6 percent of GDP in the U.S.

Sensing a fiscal train wreck, Italy has tried to reduce the level of future pension benefits from 90 percent of salary to 60 percent. Mexico, Portugal and Turkey are making even bigger cuts.

Elsewhere in Europe, German Chancellor Angela Merkel has reduced unemployment benefits, supports a corporate tax reform plan, favors limiting inheritance taxes and is seeking more competition among healthcare providers.

Talk of healthcare reform is also growing in Britain, where the budget for the National Health Service has tripled in the past 10 years. Even so, most patients still wait longer than 18 weeks for hospital services and some must wait more than a year.

What to do?

Faced with trillions of dollars (or euros or pounds) in debt and an army of entrenched government bureaucrats, it is tempting to throw up your hands and say nothing can be done.

A better response is to start educating yourself on the issues.

You can begin by familiarizing yourself with your elected officials and their point of view when it comes to debt, taxes, spending and additional government programs.

When it's election time, you can use that knowledge to support those candidates that support better alternatives.

Americans For Prosperity is just one of many organizations seeking to educate taxpayers about economic policy and to

"We must not let our rulers load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude."

Thomas Jefferson

mobilize citizens in the battle against runaway government.

There are now AFP chapters in 20 states, including Georgia, Illinois, Kansas, Texas, Virginia and Wisconsin.

AFP's national Web site offers tips on how to communicate with your elected officials, including the most effective protocol for writing, e-mailing or telephoning.

If you are a qualifying employee in the U.S., KOCHPAC offers another excellent avenue for learning more and making your voice heard.

KOCHPAC, the political action committee of Koch Industries, has a 17-year tradition of supporting those candidates – in both major U.S. political parties – who favor market-based policies that promote freedom and prosperity.

Both AFP and KOCHPAC offer legislative updates and background information on key votes before Congress.

Regardless of how you choose to learn more about the political process, remember: there is no substitute for being an informed voter.

Otherwise, as journalist H. L. Mencken observed: "Every election is a sort of advance auction sale on stolen goods." ■

 www.americansforprosperity.org
www.kochpac.org

Koch Associate Program



Washington, D.C. - Fifty-six Associates were chosen for this year's Koch Associate Program.

Non-profit organizations across America are facing a huge challenge. It's not a shortage of funds, it's a shortage of talent.

This is especially true in our nation's capital, where many influential non-profit organizations are headquartered, including several devoted to market-based causes.



In response to this challenge, the Charles G. Koch Charitable Foundation recently launched the Koch Associate Program.

This year-long program identifies and develops

promising young leaders and entrepreneurs who share two important characteristics: they want a career in the non-profit sector and have a passion for advancing free societies.

Fifty-six Associates are enrolled in this year's program,

which began in June and will end next May.

How it works

The Koch Associate Program is not volunteer work. Associates are paid for full-time roles, commensurate with their experience.

Associates who are selected for this program spend four days a week working on significant assignments with non-profit organizations.

This year's assignments are spread across more than two dozen non-profits, including The Federalist Society, The Heritage Foundation, Bill Of Rights Institute, Americans for Prosperity Foundation and Independent Women's Forum.

Roles at these non-profits are widely varied. Some Associates work in marketing, tax analysis or human resources. Others are writers, editors, policy analysts, research assistants or development officers.

Hands-on, real world experience at a non-profit organization gives Associates important insight into how decisions are made, how projects are prioritized and which capabilities are necessary for success.

The fifth day

In addition to working full-time for four days, Associates also devote one day of each work week for studies in a Market-Based Management® curriculum.

This curriculum draws from a variety of disciplines, including history, economics, ethics, social philosophy and management.

As anyone who has read *The Science of Success* knows, Charles Koch credits MBM® with transforming Koch Industries into the world's largest private company.

Through a unique combination of study and hands-on experience, Associates learn how to apply MBM to non-profit organizations to make those organizations more effective and efficient.

Mentoring is an essential part of this process. Associates are assigned three mentors, two for their non-profit role and one for their MBM studies.

These mentors help Associates develop the knowledge, skills, and experience necessary for careers with market-oriented think tanks, policy institutes and other non-profit organizations.

Selection

The Koch Associate Program seeks candidates from diverse backgrounds with varying levels of experience.

This year's Associates range in experience level from recent graduates to those with nearly a decade of work experience. They come from private sector, government, graduate school and military as well as non-profit backgrounds.

Applications are already being accepted for next year's program, which will run from June 2008 through May 2009.

The Koch Associate Program is highly competitive and selects only the most promising candidates.

Potential Associates must have a strong commitment to liberty and an entrepreneurial spirit. A solid academic record, including a minimum of a bachelor's degree, is required.

Applicants also must display humility, integrity, and be self-starters.

To find out more or to submit an application, visit the Charles G. Koch Charitable Foundation's Web site at www.cgkfoundation.com/associate.asp ■



Noteworthy

Basic Economics—A Citizen's Guide to the Economy by

Thomas Sowell (2004 edition)

For the average reader, most books about economics are dry, confusing and overloaded with statistics. They are most effective when used as sleep aids.

Sowell, on the other hand, has written an engaging and enjoyable introduction to economics.

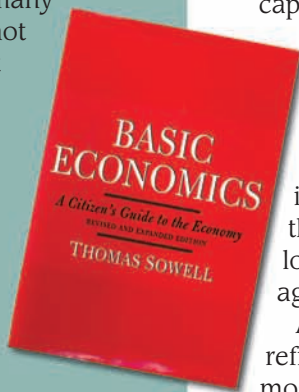
This accomplishment becomes even more impressive when you learn the author is a distinguished economic scholar with the Hoover Institution at Stanford.

"The basic principles of economics are not hard to understand, but they are easy to forget," says Sowell, "especially amid the heady rhetoric of politics and the media."

Because "every voter and every politician that they vote for affects economic policies," Sowell emphasizes the need to take a look at the long-term consequences – rather than the short-term intentions – of economic policies.

This is vitally important, he writes, "because so many public officials may not look beyond the next election."

He warns against thinking we can "opt out" of economic issues. Our only options are "to be informed or not informed" when making political choices.



"No regulation of commerce can increase the quantity of industry in any society."

— Adam Smith

Northern Flights

On June 20, 1977, the Trans-Alaska Pipeline System began pumping crude oil from Prudhoe Bay, on Alaska's North Slope, to the port of Valdez, 800 miles away in south-central Alaska.

That same summer, a small refinery started up near Fairbanks, about halfway down the pipeline route. Known locally as the North Pole refinery, it was owned and operated by the Earth Resources Company of Alaska.

This modest distillation facility was designed to process about 30,000 barrels of crude oil per day and produced just 3,000 barrels of heating oil or jet fuel. Then, as now, unprocessed crude was returned to the pipeline system.

New owners

Following ownership changes in 1981 and 1998, the North Pole refinery was purchased by a subsidiary of Flint Hills Resources. Included in that 2004 acquisition were important terminals in Fairbanks and Anchorage.

FHR's North Pole refinery is now the largest in Alaska, capable of processing 220,000 barrels of crude oil per day and refining 60,000 barrels of product.

More than one fourth of that processing total includes state-owned crude that is refined as part of a long-term Royalty-In-Kind agreement.

About 60 percent of the refinery's output is jet fuel, most of which is shipped by rail car to Anchorage, where cargo planes crossing between Asia and North America stop to refuel.

In an average year, the refinery fills about 30,000 tanker cars with jet fuel for the trip by rail to the



Since acquiring the North Pole refinery, FHR has contributed more than \$2 million to Alaskan non-profit organizations.

Anchorage terminal. Each car holds about 500 barrels (roughly 21,000 gallons).

Celebration

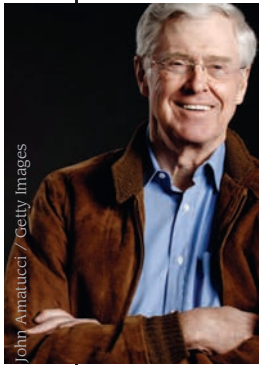
On Aug. 16, FHR employees in Alaska celebrated the 30th anniversary of the North Pole refinery. Special guests included Brad Razook, FHR's president and CEO.

Twenty-seven employees have worked at the refinery or its terminals for 20 years or longer. One employee, Dave Freedle, has worked at the refinery all 30 years.

Refinery employees also had something else to celebrate this summer. On Aug. 1, they set a new record for plant safety: 1 million work-hours (more than two and a half years) without an incident or injury resulting in time away from work. ■



Then and now – Since opening in August 1977, the North Pole refinery has produced about 17 billion gallons of gasoline, diesel, jet fuel, heating oil, naphtha, asphalt oil and specialty fuels.



John Amalucci / Getty Images

By Charles Koch,
Chairman
and CEO
Koch Industries, Inc.

Most of my book, *The Science of Success*, is devoted to a discussion of Koch Industries and the lessons we've learned while developing and applying Market-Based Management®.

As you know, we believe any organization – including non-profits – will benefit from applying the underlying principles of MBM®. The same is true of individuals and societies.

This opportunity is mentioned in the preface of my book, where I recounted my study of the principles that lead to prosperity and societal progress:

“As an engineer, I understood the natural world operated according to fixed laws. Through my studies, I came to realize that there were, likewise, laws that govern human well-being.

“We must greatly increase our efforts to advance and preserve free societies.”

“I learned that prosperity is only possible in a system where property rights are clearly and properly defined and protected, people are free to speak, exchange and contract, and prices are free to guide beneficial action.

“Allowing people the freedom to pursue their own interests, within beneficial rules of just conduct, is the best and only sustainable way to promote societal progress.”

Why bother?

Today, more than ever, I am convinced we must greatly increase our efforts to advance and preserve free societies.

To understand the importance of these efforts, take a moment to consider your alternatives in today's world...

If you had to move your family to another country, and your choices were limited to North Korea, Iran or

Zimbabwe versus Singapore, Ireland or Australia, I have little doubt as to which option you would choose.

Singapore, Ireland and Australia not only have higher per capita incomes, their citizens also enjoy longer life expectancies, better security, environmental quality, health and education as well as personal choices.

Such are the benefits of economic and personal freedom.

Science of Liberty™

These benefits are well worth understanding and disseminating. That's why, in 1980, I established the Charles G. Koch Charitable Foundation.

Its sole purpose is to advance social progress and well-being through the development, application and dissemination of what we call the Science of Liberty.

Simply put, this involves applying the science of human action in a society.

(To better understand the science of human action, you could start with the second chapter of *The Science of Success*. Then, if you are turned on, jump to *Human Action* by Ludwig von Mises.)

The more widely the Science of Liberty is understood, the more likely we are to succeed at ensuring that politicians, businesspeople and others contribute to – rather than undermine – prosperity.

This understanding should lead to rules of just conduct and incentives that reward producers and discourage predators.

And it should help reverse the process by which free societies lose their freedom and prosperity over time.

We try to advance these goals in a number of ways, including the Associates program mentioned on page six of this issue.

You choose

Any nation that truly wants to achieve long-term prosperity, civility and peace must embrace and apply the same principles that make up the framework for MBM.

If we really want to improve the lives of everyone, especially the poorest members of society, we should ask some straightforward questions about any candidate for political office, or any policy requiring our vote:

Will that candidate or policy contribute to, or undermine, freedom and prosperity?

Will that candidate or policy enhance, or erode, the culture required for prosperity?

We should also ask ourselves some tough questions:

Are we doing everything we can to advance the cause of liberty and prosperity?

Do we really think “someone

Principled Entrepreneurship™
Maximizing long-term profitability by creating real value in society, while always acting lawfully and with integrity.

else” will pay for a benefit promised by the government?

It is no coincidence that those societies or nations with the greatest economic and personal freedom enjoy more prosperity and a better quality of life. This relationship has been evident throughout history.

That is why I am committed to promoting the Science of Liberty.

Our goal is sustainable prosperity, civility, peace and societal progress for the benefit of all. ■

