



PACO STEEL & ENGINEERING CORP.

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March 3, 1995

Mr. Jim Zumwalt

Dear Jim:

The following report on our trip to DPRK contains my personal observations, findings and opinions. Please see that it reaches the proper government authorities.

U.S. DELEGATION BUSINESS MEETINGS

During the initial general meeting, the gist of my remarks in Korean was that they were probably surprised to see such a diverse group of Americans. For instance, I left here (Pyongyang) barehanded forty-five years ago, studied engineering, worked hard and have spent my life in the steel industry with experience in manufacturing, marketing, distribution, fabrication and product use. I am an inventor, hold patents for steel innovations and am President of my own steel company. I have truly achieved the "American Dream" and am especially pleased to return as part of this delegation representing my country, America, in the furtherance of relations with my birth country, Korea. My story is a perfect example of what can be accomplished through the opportunities available in the United States, and it is my sincere hope that we can mutually benefit by combining our resources and knowledge.

Steel Industry

My discussions with Ministry of Metal Industry leaders (copy of their memo enclosed) included the following attendees.

An Su Il, Director (Head Negotiator)
Han Won Suk, Vice Director
Kim Rung Ung
Chon Myong Ik, Chief Engineer Transport Means Co.

Existing Facilities/Desired Improvements

1. Kimchak Steel Co. (NE DPRK-Hamkyung Nam Do Province)
One blast furnace mill making ±3,000,000 tons/year exists

Plan:

- a. Flat and coil rolling mill-capacity 300,000 tons
- b. Shape medium section mill-capacity 200,000 tons

2. Chulima Steel Co. (Nampho City-10 to 15 m SW of Pyongyang)
Two electric furnaces exist

Plan:

- a. Would like improved furnace with production level at 1,000,000 tons
- b. Small shape, maybe bar or rolling, mill-capacity 500,000 tons
- c. Priority is a plate rolling mill-capacity 900,000 tons

3. Rajin Sunbong (Free Trade Zone)

Plan:

- a. Two electric furnaces with capacity of 700,000 tons
- b. Two continuous casting and shape rolling mills with capacity of 250,000 tons
- c. Bar mill with capacity of 450,000 tons
- d. Buildup "H" beam line-20,000 to 50,000 tons

NOTE: Kyoei Steel, Japan is already in some kind of joint venture negotiation for the "H" beam line.

Basic Venture Conditions

DPRK to Supply: all labor, all construction, all electricity

Investor to Supply: machinery or cash or credit guarantee and be assured of no duties or any type of taxes until at least, investment returned and profits realized

Most of their equipment is 50 years old, engineering education and textbooks are out of date and new technology and quality standards are lacking. They do have a large supply of raw material, a vast subservient work force and are desperate to advance with little choice but to seek help from the U.S. with its powerful resources, prestige and product acceptance.

This is a good opportunity to open up and positively compete in today's Asian market. Japan, South Korea and even China, are established and have enjoyed a closed market for years. They would quickly seize any opportunities if U.S. sanctions were simply lifted.

The U.S. government must aggressively pursue agreements from the DPRK government before lifting sanctions. The terms must include first priority rights and privileges and commercial rights in Asia. Only with these conditions in place, can we reopen the Asian markets virtually closed to us by high fees, price fixing and discrimination.

As an example, General Motors freely gave South Korea financial and technical support after the war through the 1970's. Japan jumped in during the 1980's and succeeded in shutting down U.S. operations via trade pacts including having South Korea impose 200% duties and other taxes, thereby, making U.S. products cost three times as much. This scenario has also occurred in China and other Asian countries. We can use the DPRK to break these systems and gain markets via reexport, however, we can only attain this with strict agreements.

Magnesia Export

I also met briefly with O Hung Muk and Kim Gum Ran from Korea Magnesia Clinker Export and Import Corp. and have enclosed a copy of the information they gave to me.

MY OUTLOOK AS A KOREAN-AMERICAN

It is a misconception to believe that the North Korean population, in general, is well informed about the world. The front people our delegation met were a hand-picked group able to speak and deal with foreign visitors and are a very small part of the DPRK community. The majority are totally in the dark about the world beyond their borders. There is no personal choice, privacy, creativity or independence and only a mandatory 10 year basic education with military-like discipline and an emphasis on communist teachings.

To make any kind of timely progress, I strongly urge that Korean-Americans, who understand the nuances of the language and culture, do the initial groundwork and set in motion serious negotiations. A large well-educated/trained pool of Korean-Americans is available at all skill levels and would best be able to meet the challenge of developing and modernizing the DPRK. Language is the primary tool in breaking down barriers and gaining acceptance and support for any venture. The key to China's advancement, for instance, has been the efforts of Chinese outside the country.

HUMAN RIGHTS

As you well know, my foremost desire was to see my family and learn the whereabouts of my two brothers who disappeared many years ago. I sincerely appreciate your help in this regard and was hopeful. It was extremely disappointing that I was unable to at least see my mother or learn anything. My inability to help them is very frustrating. Human rights must be the first issue addressed and resolved in normalizing relations with the DPRK. We must refuse to be used for business purposes without regard for people.

J. Zumwalt

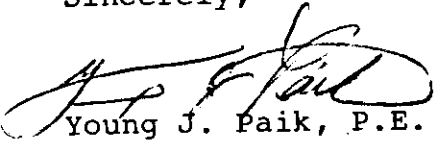
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My meeting with Hwang Jang Yop at the airport was certainly unexpected and rather strange. He stated that I would be invited back at the proper time to see my family, but the government was unprepared at this time to grant my request. Yop led me to believe that many changes are coming and that new ideologies are being formed. Nothing seems to have changed since Kim Il Sung's death, which I feel is odd. I do sense that something is brewing and shall wait to see the outcome.

Overall, it was a difficult but certainly interesting and enlightening trip. I look forward to hearing your feedback and about any new developments.

Sincerely,



Young J. Paik, P.E.
President
PACO STEEL & ENGINEERING CORP.

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