Despite Carter, no 'breakthrough'

The truth about the U.S.-Mexico gas deal

There are two diametrically opposed interpretations of the just completed agreement between the United States and Mexico for the purchase of natural gas. The Carter administration claims that conclusion of the sale is a significant "breakthrough" in relations between the two countries; then there is the Mexican government's view that while the agreement is important, it does not imply that Mexico's resources are at the United States' beck and call.

The agreement just reached in fact bears little resemblance to the pact tentatively concluded—and then blocked by then Energy Secretary James Schlesinger—in December 1977. The difference between the two can be attributed to the arrogant, heavy-handed negotiating tactics of the former Energy Secretary, who consistently argued that since "Mexico had no other use for its gas," it would have to agree to sell to the U.S. at bargain basement prices.

In the end, Mexico basically won its terms; the U.S. got only one-seventh the amount of gas originally offered. Mexico applied the rest to its domestic industrialization plans.

According to the December 1977 agreement worked out between Mexico's national oil company, Pemex, and six U.S. gas transmission companies, Mexico would have supplied the U.S. with 2 billion cubic feet per day at a price pegged to equivalent energy in terms of No. 2 heating oil imported into New York harbor. This formula worked out at that time to a price of $2.60 per thousand cubic feet (mcf).

In the final government-to-government agreement, reached Sept. 19, some 21 months after Schlesinger personally vetoed the earlier agreement, Mexico will provide the U.S. 300 million cubic feet per day. This is barely one half of 1 percent of U.S. consumption. Contracts will be revised every 90 days, and can be terminated by either party on 180 days notice. Both conditions reflect Mexico's requirements. Finally, the price is tied to the price of other fuel imported into the U.S.—an escalator clause previously rejected by Schlesinger. The baseline level will be $3.62 per mcf, with deliveries to start Jan. 1, 1980.

Another chance missed

The deal could have given the current administration one of its best opportunities to reverse the decline in U.S.-Mexico relations which has characterized Carter administration policy since the administration entered office.

The critical ingredient in such a turnaround would have been Washington's acceptance of an oil-for-technology framework in which the U.S. would back Mexico's high-technology industrialization strategy. Up to now, administration policy has been overwhelmingly committed to an "appropriate technology," labor-intensive focus which Mexico views as an attempt to keep the country as poor and backward as possible.

But, instead of tackling fundamental development issues, Carter and the major East Coast press blared self-congratulations that the deal was a "breakthrough" which betokened the unlocking of all of Mexico's enormous reserves to potentially being placed at the service of a heightened anti-OPEC campaign.

The *New York Times* for instance, stated that "Americans have reason to cheer. Unlike the Mideast oil that it will effectively replace, the Mexican gas will be effectively secure from terror or revolution." Not coincidentally, leading congressional sponsors of a North American Energy Common Market—an undisguised and threatening oil grab in Mexico's view—scheduled hearings on a Mexico-U.S.-Canada "energy summit" for the day before Lopez Portillo arrives in Washington.

The Mexicans reacted to the U.S. claim of a "breakthrough" with terse and blunt reminders that the deal implied nothing about future oil and gas exports. Stated Foreign Minister Jorge Castaneda unequivocally in a Sept. 23 *New York Times* interview, "On oil there is no basis for a special agreement....We will use our energy, oil and gas, in accordance with our national interest and not as a supplier of foreign needs."

—Timothy Rush and Carlos de Hoyos

Extended negotiations: How not to buy gas

June, 1977 The head of Mexico's national oil company (Pemex), Jorge Diaz Serrano, announced that Mexico "is eager to sell much more of its oil to the U.S." and proposed the construction of a gas pipeline from the oil regions to the U.S. border.

Aug. 4, 1977 A letter of intent for a gas deal was signed between a consortium of six U.S. natural gas companies and Pemex. The price according to the agreed formula was about $2.60 per thousand cubic feet.

Oct. 22, 1977 Illinois Senator Adlai Stevenson III, in coordination with U.S. Energy Secretary James Schlesinger, called on Congress to veto a $500 million credit package for Mexico arranged through the Export-Import Bank of the United States, $360 million of which had been slated for construction of the U.S.-Mexico gas pipeline.

Nov.-Dec. 1977 Schlesinger increased pressure on both U.S. gas companies and Mexico to back away from the gas price formula, which he termed unacceptable. When neither complied, Schlesinger summoned Mexican Foreign Minister Roel and Pemex director Diaz Serrano to Washington Dec. 21 to inform them that his Department planned to veto the deal. The next day Mexico ended negotiations.

Jan. 25, 1978 Vice-President Walter Mondale visited Mexico in an effort to reopen discussion of the gas pipeline. He was told by President Lopez Portillo that the price "is not negotiable."

April 29, 1978 Lopez Portillo delivered an unequivocal statement on the natural gas negotiations, which stated that "Mexico has decided to use all its natural gas in the development of our country and if we export anything at all, it will be the fuel oil which we will substitute with the natural gas itself."

Dec. 7, 1978 Carter said that in his February trip to Mexico he expected "to conclude, hopefully, the continuing negotiations" on Mexican gas imports, which Schlesinger's actions had halted more than a year before.

Feb. 14-16, 1979 Carter's summit with Lopez Portillo in Mexico was marked with unrelieved banality and bad taste by the U.S. President. Newspaper accounts highlighted Carter's performance as well as Lopez Portillo's sharp warning that U.S.-Mexican relations were in deep difficulty. Among the only accords concluded was an agreement to restart gas negotiations on a government-to-government level.

April 4, 1979 Gas negotiations resumed. Chief U.S. negotiators were Schlesinger lieutenants Harry Bergold of the DOE and Julius Katz of the State Department. The semi-official Mexican daily *El Nacional* defined Mexican policy in a blistering Apr. 11 lead editorial which attacked "Mr. Schlesinger's myopic ... arrogant and closed-minded attitude" and his "Big Stick" policies in energy negotiations.

Aug. 14, 1979 Syndicated columnist Joseph Kraft published an article that charged Lopez Portillo with bad faith in ongoing gas negotiations. Kraft related that the Mexican President, in a meeting with U.S. ambassador to Mexico Patrick Lucey, had agreed to a low price in exchange for U.S. concessions on migrant and trade issues. Kraft alleged that Mexico reneged on the pledge.

Aug. 16, 1979 The Mexican Foreign Relations Ministry issued a succinct five-point statement which declared all reports that Lopez Portillo had agreed to a specific price "entirely inexact." He likewise classified all reports that the Mexican President had agreed to link the gas price to other issues "absolutely false." The statement said that inability to "reach agreement concerning criteria" for pricing blocked an agreement, adding that "only small quantities" of gas would be available for export because of surging internal demand.

Aug. 29-31 Undersecretary of State Warren Christopher, chief U.S. gas negotiator Julius Katz, and NSC staffer Guy Erb flew to Mexico for hurried consultations with Mexico's Foreign Ministry. They returned empty-handed.

Sept. 19-21 Warren Christopher and team arrived in Mexico on an open-ended visit, charged by Carter to work out a gas deal before the Carter-Lopez Portillo summit. On Sept. 21, Carter announced that a gas deal had been reached, based essentially on U.S. acceptance of Mexico's terms for a pricing formula.