

Materials on

The U.S. - Mexico Natural Gas Negotiations (1977 – 1979)

The relationship between the United States and Mexico took on a new dimension in the 1970's when, during a period of extreme consciousness about the world's dwindling petroleum reserves, Mexico announced it would sharply increase exports of natural gas. Mexico's northern neighbor, so often the source of strife and aggression during the past century, would this time provide the market for the gas, while at the same time helping to rescue the faltering Mexican economy. A deal was made which would provide the United States with large amounts of natural gas, a market for technology, products, and services, and a decreased reliance on the undependable OPEC cartel.

In 1977, six American gas firms signed letters of intent to import up to four percent of the nation's gas supply from Mexico at a delivered price of \$2.60 per thousand cubic feet (mcf). But the Carter administration was fighting a hard battle in Congress to retain price controls on domestically-produced gas. The price stipulated in this national energy bill was to be \$1.75 per mcf. Members of Congress participated in sharp debate over whether the U.S. should buy gas from Mexico at a higher price.

As you read these materials, try to identify the interests of the U.S. and Mexico, and consider how the process of these negotiations might have been improved.

Questions To Consider While Reading This Case:

1. Who was the Carter Administration negotiating with?
Who was the Lopez-Portillo administration negotiating with?
2. How did the different players facilitate or impede negotiations?
3. What went wrong in 1977? Why was the outcome different in 1979?
4. What aspects of the negotiation process illustrated by this case would improve the system if universally adopted? What aspects would further weaken the system?

CAST OF CHARACTERS
U.S. - Mexican Natural Gas Negotiations

Luis Alvarez Echeverria, Former President of Mexico, 1970-1976

Jimmy Carter, President of the United States

Gustavo Diaz Ordaz, Former President of Mexico, 1964-1970

Jorge Diaz Serrano, Director of Petroleos Mexicanos (*Pemex*), the Mexican state oil monopoly

Jose Lopez Portillo, President of Mexico, 1976-1982

Patrick J. Lucey, United States ambassador to Mexico

Walter Mondale, Vice-President of the United States

James R. Schlesinger, United States Secretary of Energy

Cyrus Vance, United States Secretary of State

CHRONOLOGY

U.S. - Mexican Natural Gas Negotiations

- 1810** Miguel Hidalgo leads the struggle for Mexico's independence from Spain.
- 1821** Mexico gains its independence.
- 1824** Mexico becomes a republic (Mexico experiences several changes of government during the century).
- 1836** Texas gains its independence from Mexico.
- 1846-1848** American troops invade Mexico in the U.S.-Mexican War, during which U.S. General Winfield Scott occupies Mexico City. In the treaty that concludes the war, Mexico loses 50% of her territory (including what is now Texas, California, Nevada, Utah, plus parts of Colorado, New Mexico, and Arizona).
- 1910-1911** Mexican Revolution, led by Francisco I. Madero, overthrows dictator Porfiro Diaz.
- April 1914** United States Navy occupies the Mexican port of Veracruz, at a cost of more than 300 Mexican lives. This action hurts U.S. President Woodrow Wilson's reputation as a "man of peace."
- 1917** Adoption of a Constitution for post-revolutionary Mexico.
- 1938** Mexican government nationalizes foreign oil company property.
- 1968** Widespread repression in Mexico precedes the Summer Olympics,
Aug.-Oct. which occur in Mexico City amid turmoil.
- 1976** Jose Lopez Portillo assumes Presidency of Mexico and almost immediately announces oil exports will increase ~1000%.
- April** Mexico receives \$360 million from the United States Federal Reserve under a short-term lending agreement to support the peso.

- August 31** Mexican peso devalued for the first time in 22 years.
- September 20** International Monetary Fund announces a \$1.2 billion package of support for Mexico, a move that is supported by United States government and private interests.
- 1977**
- February** Mexican President Lopez-Portillo becomes the first Head-of-State to visit the U.S. during the Carter Administration.
- April** President Carter submits Energy Bill to Congress. The bill contains proposals to retain price controls on domestically produced natural gas which would cap prices at \$1.75 (mcf).
- July** Mexico's announces gigantic oil discovery.
- August 4** Mexico signs a letter of intent to sell large quantities of natural gas to a consortium of 6 U.S. oil companies. This poses a potential conflict to an agreement which would bring natural gas to the United States from Alaska via Canada.
- August 15** Director General of PEMEX reaffirms that Mexico won't join OPEC.
- September 9** Eximbank submits a statement to the U.S. House of Representatives to extend credit to PEMEX to build a pipeline to transport Mexican gas to the U.S. border.
- October** Senator Adlai Stevenson introduces a resolution disapproving of the Eximbank financing.
- November 8** PEMEX announces a December 31 deadline for signing the memorandum for the sale of gas to the U.S. at \$2.60 per mcf.
- December 16** Mexico publicizes their increasing irritation with the U.S. refusal to approve a price for Mexican natural gas exports (equal to the prevailing price of No. 2 light fuel oil at New York Harbor).

At the same time, U.S. President Jimmy Carter is trying to win approval for his comprehensive energy package, which includes holding down American domestic gas prices. As a result, Carter is forced to withhold approval of the Mexican gas price until his package gets Congressional approval.

Accordingly, a \$580 million credit for Mexican purchases of U.S. equipment is stalled, too.

- December 27** Mexico suspends its offer and stops work on the pipeline to bring natural gas to the United States.
- December 29** U.S. Energy Secretary James Schlesinger declares U.S. won't permit Mexican gas imports at a price above Canada's, fearing that to do so will cause the Canadians to raise their gas prices.
- December 31** Letter of intent signed August 4, 1977 expires.
- 1978**
- Debate in Congress is largely critical of lost opportunity.
- Sep.-Nov.** Presidential Review Memorandum No. 41, reviewing Mexican-American relations, is prepared.
- November 9** President Carter signs Energy Bill
- November 13** Mexican officials announce the discovery of a large (100 billion barrel) oil field in the Tampico area off the Gulf of Mexico.
- 1979**
- February 15** U.S. President Carter begins a visit to Mexico, where he is sternly lectured by Mexican President Lopez Portillo about the United States' lack of respect for Mexico.
- September 21** Joint announcement of U.S.- Mexico Agreement on Natural Gas.

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U.S. - Mexican Natural Gas Negotiations

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