Gas Companies Balk At Schlesinger's WEEP Attack On Mexico Deal

Six U.S. natural gas companies negotiating purchases of natural gas from Mexico have fired off telegrams to Energy Secretary Schlesinger and Secretary of State Vance, telling them in angry terms to stop interfering in their private talks with Mexico's state oil company Pemex.

Schlesinger's activities, totally outside his authority, could wreck deals with Mexico which would supply U.S. consumers with 1 billion cubic feet of natural gas per day (cfd) by 1979 and more than 2 billion cfd by 1981 — 4 percent of U.S. gas consumption.

The six gas companies and Pemex are on the verge of signing contracts that would bring in this amount of gas at a price pegged to the energy supply equivalent of ***number 2 fuel oil brought into New York harbor, $2.60 per thousand cubic feet at current prices. Schlesinger is demanding a $2.16 level, on the flimsiest of pretexts (see section below).***

The step-up in Schlesinger's attempts to disrupt *the Mexican gas negotiations occurred as his Energy Department finally released its Winter Energy Emergency Plan (WEEP). The WEEP scenario calls for the strict rationalization of U.S. industry under conditions of energy shortage during the 1977-78 winter. Schlesinger's activities against Mexico, his crusade against nuclear energy development, and his inflammatory statements about U.S. military contingency plans to move into Mideast oil fields, all indicate that he is doing his best to create the shortages himself. The legislation creating the Energy Department grants virtual wartime powers to the Department's secretary in times of "energy emergency."*

Schlesinger's heavy-handed interference has been carried out with full knowledge that the Mexican price is not negotiable. Last week, President Lopez Portillo made the most recent of emphatic Mexican statements on this point. An official at the Mexican embassy in Washington commented soon after that any back-down by Mexico on the price, even if the government was disposed to do so, was "politically impossible" due to the pressure of popular nationalist feeling.

The Events

The rapid-fire events of the past two weeks can be reconstructed as follows:

Thanksgiving Week — **Schlesinger sent his newly appointed Assistant Secretary for International Affairs, Walt McDonald, to Mexico to step into the ongoing gas** negotiations. Since by law the Energy Department is only empowered to review energy import contracts after they are signed, Schlesinger arranged for State Department representatives to be included in the delegation.

Walt McDonald, an economist for the CIA before being hired away by Schlesinger, is the author of the notorious "Stansfield Turner report" on international energy prospects cited by President Carter when he presented Schlesinger's energy program in April. The report incredibly asserts that the Soviet Union will turn from being a net petroleum exporter to a large-scale petroleum importer in the early 1980s.

When the lead negotiator for the gas companies, Tenneco's Jack Ray, found out about the McDonald delegation, he immediately sent telegrams of protest to both Schlesinger and Vance. Ray made it clear that the negotiations were a private company-to-company affair, and that until contracts were delivered to the Energy Department, the government had no role in the negotiations.

The Assistant Secretary for Economic and Business Affairs in the State Department is now drafting a response to the gas companies' telegram. Indicating which department continues to actually run the interference, Department of Energy spokesman Donald Creed informed this publication Dec. 7 what the contents of the reply would be: "The U.S. government is not involved in the negotiations, but the U.S. government has the right to deal with the Mexican government on a wide range of energy matters."

Late in the Week of Nov. 28 — **the State Department** summoned representatives of the gas companies to Washington. According to reports, a high-level State Department official informed the companies that State would not "dictate" the contract — and then proceeded to **do exactly that. State stipulated a price of $2.16 per** thousand cubic feet. When the companies protested, the official commented threateningly: "Why do you want to sign a contract which the government is going to reject?", suggesting that the action of Schlesinger's Federal Energy Regulatory Commission (FERC) has been determined long before that Commission holds any hearings or prepares an import authorization study.

When the companies insisted they would not break their understandings with Mexico, the State Department offered a fall-back option: that the companies "drag their feet," that is, bargain in bad faith — until the current negotiating deadline of Dec. 31 expires.

Schlesinger or the Department of State then conduited the key points of this session to the *Wall Street Journal* in a planted story which appeared Dec. 5 (see below).

Also the week of Nov. 28 — Simultaneous with the State Department Session, the office of Vice President Mondale announced that the Vice President would visit

Mexico Jan. 20-21, and that energy would be one of the **main topics of discussion. Observers immediately** recognized that if Schlesinger's attempts to force a breakdown in negotiations before the end of the year succeed then Mondale, who has worked closely with Schlesinger to push Schlesinger's energy program through Congress, would become the U.S.'s "negotiator plenipotentiary" upon his arrival in Mexico in January.

What Now?

Schlesinger, who had hoped to run his wrecking operation under wraps, is now mercilessly exposed. A release from New Solidarity International Press Service picked up by the Mexican business daily *Novedades* broke the story Dec. 3. On Dec. 7 Mexico's most widely-read newspaper, *Excelsior*, ran a banner front page story, stating the same: that the Department of Energy and the State Department have exerted "open and intense" pressure on the U.S. gas companies to reject the conditions set by Pemex for the gas sale. The same day the story was carried in the daily *Uno Mas Uno*.

If there was even the remotest chance that Mexico would step back from its gas price before, there is none now.

There is every indication Schlesinger will continue his sabotage efforts. However if the negotiations between the gas companies and Pemex can be maintained on course, Mondale will arrive in Mexico with the entire issue a matter of Department of Energy regulatory decision in Washington. At that point, it will still be possible for Schlesinger to stop the deal: but only with the onus for wrecking U.S.-Mexico energy cooperation, for shooting down $600 million in Eximbank-financed U.S. exports connected to the gas deal, and for arbitrarily depriving the U.S. of vital gas supplies, resting on his shoulders alone.

The Wall St. Journal And Schlesinger Vs. Reality

The terms of the heavy-handed intervention of the State Department into the Mexican gas negotiations, on behalf of Schlesinger and in coordination with Vice-President Mondale's office, have only been released publicly in the form of a Wall Street Journal *article December 5th which was planted by friendly State Department sources. The article is entitled "U.S. Plan to Import Mexican Natural Gas is Snagged on Controversy Over Price." Sections of it are reproduced below, with accompanying comment and correction.*

Wall Street Journal: The U.S. doesn't want to pay Mexico more for natural gas than it pays Canada. The U.S. imports nearly three billion cubic feet a day from Canada at $2.16 a thousand cubic feet. U.S. officials suggest that $2.16 also would be a fair price for Mexican gas.

Why is a 1977 price for Canadian gas, a price which is repegged periodically by the Canadian National Energy Board and has been steadily rising in recent years a "fair price" for Mexican gas to be delivered in 1979 or 1980? In fact, since April 1977, the Canadian National Energy Board has adopted a pricing policy for Canadian gas, based on equivalent energy cost of crude oil imports at Montreal harbor which is substantially identical to Mexico's! Further, the U.S. has had to pay for the State's side links to connect the Canadian gas to U.S. distribution networks. The Mexican gas, fed into the existing national grid radiating out from Texas, will require no such cost. If there can be such a thing as "fair pricing", the Mexican formula of linking imported gas to the cost of equivalent energy supplies of number 2 fuel oil delivered in New Harbor would seem reasonable.

Wall Street Journal: Carter Administration officials don't have the authority to force American companies and Pemex to sign a contract for a lower price than $2.60. But, because any gas-import agreement must be approved by U.S. regulatory authorities, it's unlikely that the U.S. companies would agree to a price that the government opposed."

The first part of this statement is indeed true. The second part is total fabrication. The gas companies are determined to wrap up negotiations with Mexico on a mutually satisfactory basis before Dec. 31. They have angrily indicated they will not be the fall guys for Schlesinger and if their position should change, it would mean some extraordinary blackmail had been brought to bear by Schlesinger in terms of decisions on domestic matters affecting the gas companies in question.

Wall Street Journal: To increase pressure on administration officials and the U.S. companies to hold down the price of the Mexican gas, Sen. Adlai Stevenson (D.-Ill.) introduced a resolution to hold up an Export-Import Bank loan to Mexico until the Department of Energy reviews the price of the Mexican gas.

What is not said: It is widely agreed that Mexico stands in an excellent position to go elsewhere to obtain the almost $600 million in financing and imports involved. At the same time it has made it clear it will not budge from its stated pricing mechanism for gas. The result is that Stevenson and Schlesinger, who is widely known to have advised Stevenson on the move, are recklessly risking the Exim loan in a game of financial warfare — vigorously denounced by Mexican President Lopez Portillo (see below) — which only the U.S. can lose. And this at a time when the U.S.'s trade deficit makes the expansion of exports a top priority.

Wall Street Journal: The stakes obviously are high. U.S. gas consumers would pay Mexico about $1.9 billion a year for the gas if it were priced at $2.60 a thousand cubic feet, or less than $1.6 billion if it were priced at $2.16, a difference of some $300 million.

Accountants' idiocy! In order to "save" U.S. con- ***sumers somewhat under 1% of their gas bill, Schlesinger*** *and the State Department are ready to jeopardize not only a desperately needed 4 percent of current U.S. consumption, but much more importantly, the entire* ***climate of U.S.-Mexico energy cooperation which can lead to enormous benefits for both countries as Mexico's Middle East-sized oil and gas reserves are developed.***