Response To Schlesinger Blackmail:

Mexico Breaks Off Gas Negotiations With U.S.

On Dec. 22, the Mexican national oil company, Pemex, notified the U.S. government and six U.S. companies negotiating purchase of Mexican natural gas that Mexico was withdrawing from negotiations and would not extend discussions beyond a Dec. 31 deadline. With the expiration of that deadline, the United States has lost for now not only the Mexican contracts worth one billion cubic feet per day in 1979 and rising to two billion in 1981. The U.S. also loses $340 million in exports financed by an Eximbank loan which would be used by Mexico to build a pipeline to transport the gas to the United States.

In its Dec. 22 statement, Pemex emphasized that it was taking its action on the express orders of Mexican President Jose Lopez Portillo, following a high-level meeting between Mexican officials and U.S. Energy Secretary Schlesinger in Washington. *Executive Intelligence Review* has recieved reliable information that at this meeting Schlesinger threatened Mexico with a crackdown on Mexican "illegals" in the U.S. unless Mexico stepped back from its asking price of $2.60 per thousand cubic feet and gas.

In this only public statement on the matter, Schlesinger told newsmen Dec. 29 that "Under no circumstances should we establish a price that would be above the price paid the the Canadians," who currently receive $2.16 per thousand cubic feet, but who will receive a substantially higher price by 1979, the target date of Mexican gas deliveries. The Secretary expressed his confidence that his hardline pressure on Mexico would work because Mexico had no other markets near at hand and "sooner or later" would have to sell to its northern neighbor.

Pemex, however, announced that it will build its pipeline only as far as the northern industrial city of Monterrey, 100 miles south of the U.S. border. The pipeline will link together existing lines into a national grid of great benefit to Mexican industry and allow greater exports of crude oil as industries switch from oil to gas fuels.

Nor is Mexico leaving the political implications of Schlesinger's blackmail attempt unanswered. Manuel Buendia, columnist for the major Mexican daily *El Sol* who often reflects the viewpoint of government officials, initiated a series of articles Jan. 2 which warned that the Schlesinger sabotage of the Mexican gas deal was only part of a larger program of destablization against Mexico. Wrote Buendia: "The fierce U.S. pressure exerted in the natural gas negotiations and the Eximbank credit show that the relations between the two countries have fallen rapidly to their lowest point in many years. The arrogant language employed by some officials, like Energy Secretary James Schlesinger, presage the intensification of this 'Cold War' tactic, and in that context the CIA can be expected to play a role."

Observers in Mexico City were quick to recognize that the Buendia charges constituted a warning to Vice President Mondale, due to visit Mexico Jan. 20 and 21, not to continue the confrontationist posture adopted by Schlesinger.

Sally Shelton, deputy assistant Secretary of State for Latin American Affairs, stated yesterday that Mondale will primarily discuss energy issues in Mexico, but also illegal immigration ..."if the Mexicans let us." A top Mexican-American spokesman in Washington D.C., school board official Frank Schaeffer Corona, charged Jan. 3 that there were "strong indications" that Schlesinger would withdraw his opposition to Mexico's gas price if Mexico adopted a "public commitment to support the Carter Plan" on illegals, announced in August 1977. So far, Mexico has expressed only harsh criticism of the plan, which would close off jobs in the U.S. to large numbers of Mexican workers.

The Showdown

As documented previously in *Executive Intelligence Review* (see Vol. IV, Nos. 44, 45, and 50), Schlesinger, together with Sen. Adlai Stevenson III, began efforts to derail the mexico gas negotiations in October. Despite further, direct intervention in late November, negotiations between the U.S. gas companies and Pemex were completed late in the week of Dec. 12, and a contract was ready to be signed. Mexico's pricing mechanism — yielding a current $2.60 per Mcf — had been accepted by gas companies as early as August and was not a point of negotiation thereafter.

Schlesinger moved quickly. He summoned Mexican Foreign Minister Santiago Roel and Pemex director-general Jorge Diaz Serrano to Washington for a hurriedly arranged face-to-face meeting Dec. 21. It was at this meeting that, according to high-level sources, Schlesinger placed pressure on Mexico in terms of other outstanding bilateral issues such as the illegals. The Mexican delegation also met with Secretary of State Vance, Labor Secretary Marshall, Vice President Mondale and Sen. Edward Kennedy. They apparently heard nothing in these other meetings which changed their evaluation of the meeting with Schlesinger. Within hours of their return to Mexico, President Lopez Portillo instructed Pemex to announce the breakdown in negotiations.

Backing for Lopez Portillo

Nationalist forces in Mexico immediately rallied to support Lopez Portillo's decision. The next day, the leaders of the mineworkers and the telephone workers issued statements of support, as did many members of the Mexican Congress. Over the succeeding 10 days, numerous Mexico City press praised the decision and denounced Schlesinger for "open political blackmail."

Throughout Mexico there is an awareness that this confrontation brings to the fore the same issues as in the historic 1938 showdown when nationalist president Lazaro Cardenas expropriated all foreign-owned oil companies in the country.

Gas Companies: Backing Off

The six U.S. gas companies involved — Tenneco, Texas Eastern, Transcontinental, Florida Gas, Southern Natural Resources, and El Paso — privately indicated outrage at Schlesinger's sabotage of the contract, and sent off a telegram to Schlesinger requesting an urgent meeting to hear his reasons first hand. The text of this telegram and a previous request for a meeting were made available to *EIR* by sources close to the gas companies and are reproduced below.

However, the gas companies have so far refused to make Schlesinger's role a public issue. One gas company official, whose firm is also involved in pending liquid natural gas import decisions which Schlesinger's office is expected to make in the near future, noted that it would be "poor form" to launch a public outcry about the sabotage of U.S. energy supplies and exports at this time. By "playing within Schlesinger's rules," however, the companies actually weaken their capability to tackle Schlesinger's "no-energy" policies on any front, and de facto leave Mexico at the mercy of the broader aspects of Schlesinger's efforts to undermine U.S.-Mexico cooperation.

Mexican Government: 'We Remain Firm'

The following are excerpts of Pemex's Dec. 22 press release explaining its decision to let negotiations on natural gas exports to the U.S. expire if there was no contract by Dec. 31.

...As of this moment, the purchasing companies and the U.S. government have not arrived at an agreement on prices and payment conditions for Mexican gas in line with the terms which Petroleos Mexicanos had previously indicated. The Mexican government, under express instructions
Jose Lopez Portillo, firmly maintains the position of not reducing the price of the gas. Keeping the principle of nonintervention in mind, so that the parties in the U.S. can freely come to a solution, (the Mexican government) has decided not to renew the Memorandum of Intentions which expires Dec. 31 of the current year and was expedited by Petroleos Mexicanos for the purchasing companies.

In consequence, and given the importance which the construction of the main line of the National System of Gas Distribution has for Mexico, Petroleos Mexicanos will continue its construction, without including in this stage the compression stations and the extension from San Fernando to Reynosa, Tamaulipas (at the U.S. border—ed.) for gas export, thus reducing the cost from 23 billion to 11.5 billion pesos (approximately $1.0 billion to $500 million — ed.).

As has been duly communicated to the country, if the price agreed upon between the U.S. government and the six purchasing companies does not accord with the terms and conditions proposed by Petroleos Mexicanos, instead of exporting the expected surpluses of natural gas, these volumes will be used in Mexico through the new mainline gas pipeline, and an equivalent amount of fuel and other hydrocarbons will be freed for export.

For its part, the Eximbank offer of a $340 million credit, conditioned on the export of natural gas to the U.S. which at this time has not been arranged, will be replaced with other offers received from the countries which are supplying the equipment and materials for the gas pipeline, such as West Germany, Italy, France and Japan.

It is timely to note that Petroleos Mexicanos yesterday announced the arrival of the freighter Pananassa at the port of Coatzacoalcos, Veracruz, with the first shipment of 48-inch steel tubing from Japan.

Finally, Mexico has reiterated its interest in selling natural gas to the U.S., whenever the officials and American buyers agree to the price and terms stipulated by Petroleos Mexicanos.

U.S. Gas Companies Attack Schlesinger

The following is the text of two telegrams to James Schlesinger available to this news service by sources close to the six U.S. gas companies involved in negotiations to import Mexican natural gas by pipeline into the U.S.

Dec. 27, 1977

On Aug. 3, 1977, the six undersigned United States natural gas pipeline companies signed a memorandum of intentions with Pemex agreeing to negotiate a definitive contract to purchase up to two billion cubic feet of natural gas per day at a price equilivalent to the wholesale price of number two fuel oil in the New York harbor. Within the last few days, the six U.S. companies have been advised by the Mexican government officials that the memorandum of intentions will be allowed to expire Dec. 31, 1977 and will not be renewed because of opposition expressed by you (Schlesinger — ed.) to this project in meetings in Washington last week.

Because of the grave concern of the undersigned that this promising new source of gas supply may be denied U.S. consumers and inasmuch as the memorandum of intentions between the six undersigned companies and Pemex expires Dec. 31, 1977, we urgently request a meeting with you at the earliest possible time so that we might learn first hand the nature of your opposition.

This supplements a telegram to you of Dec. 22,1977 from Jack Ray, president of Tennessee Gas Transmission Company.

Dec. 22, 1977

Pemex has broken off contract negotiations in our efforts to purchase natural gas from Mexico. Further, they have stated that they will not extend or renew the letter of intent which expires at year end.The reason given for their action on their part was that both the (U.S.) State Department and the (U.S.) Department of Energy have told them unequivocally that the price negotiated with six gas purchases is unacceptable and will not be approved.

This is indeed an unfortunate turn of events. I have requested a meeting with Dr. Schlesinger or his staff to discuss the possibility of revising the project although the Mexicans were quite firm in rejecting my request for further consideration.

(signed)
Jack Ray

U.S. Utilities Journal Calls For Fast Breeder, Fusion

The EPRI Journal, *the official publication of the Electric Power Research Institute (EPRI) published this editorial in its most recent issue. EPRI is the private research arm of the nation's electric utilities and funds basic research into technologies for electric power production. The signed editorial is written by R.E. Balzhiser, director of the EPRI Fossil Fuel and Advanced Systems Division.*

While Nero fiddled, Rome burned — and so it may be with society as we know it today — Washington fiddles over control versus deregulation, tax incentives versus taxes, and so it goes. While there is ample need for concern over energy supply in the next decade or two, it is equally imperative we recognize that as of now we have no option we are confident will be deployable in sufficient quantity to meet United States needs as early as the year 2000.

EPRI analyses identify the need for significant contributions early in the next century from new technologies, even given significantly reduced demand growth as a result of conservation. With lead times of 10-15 years required for new plants utilizing commercialized technologies, one should quickly recognize that utility planners will be making decisions in the next decade on what they must order to meet needs in the year 2000.

Coal and LWR power plants appear the only options, but neither is assured. Resource availability and/or environmental problems could limit the extent of either's contribution. Uncertainties associated with both are simply too great for us to be sure that either will be available to the extent required.

*Of the so-called long-term options, only the breeder and fusion appear capable of meeting the nation's needs on the scale and with the geographic deployment flexibility required. To be sure, each has its potential liabilities as well, but these *do not include resource limitations.* While other difficulties, hopefully, can be engineered around, an inadequate resource base cannot.

*My purpose here is not to argue the case for the breeder as the earliest alternative to coal and LWR; that fact is not disputed among knowledgeable energy experts. It is rather that the EPRI analysis concludes that even with coal, LWR, and the breeder, we will begin experiencing generation shortages early in the next century. Simple wisdom requires that we not only move aggressively with breeder technology development but also maintain a concerted effort to harness the potential of fusion. With the many uncertainties relating to resources, environmental impacts, and technology, it seems imperative that we do not depend entirely on one or even two long-term options. Diversity is essential, and fusion clearly offers the potential of another option; in the more distant future, it is perhaps the ultimate option.

My conviction reflects the rapid scientific progress that has been made in fusion research in recent years — leading, I believe, to what will be a cascading of results over the next 5 years. But these results will represent only the first milestone, the so-called scientific breakeven. Even more important is the recognition of the enormous technological barriers that must yet be overcome before fusion power can seriously be considered by energy suppliers. The time and cost required to resolve these challenges are substantial; let's not deceive ourselves in that respect.

Demonstration-scale projects are likely still 20-25 years away. The ultimate fusion option, a neutronless fuel, is undoubtedly further away, but the incentive here is so large that we simply cannot ignore it, particularly with the ray of light that has emerged in this area in EPRI studies over the past year. We must recognize that even after more than 25 years of research, fusion is still an infant. We must avoid prematurely foreclosing different approaches that could ultimately prove most attractive to the user and yet initiate development of an applied thrust that begins to provide the engineering design base for power-producing systems.

Fusion lacks a Rickover or a mission with the popular appeal of the space program. For this reason it is entering a precarious stage within the federal R&D program. It is too long-term for today's politicians and too costly, risky, and long-term to survive normal discounting practices, even in the government's economic analyses. Utilities, the principal users eventually, are so preoccupied with current problems and so unfamiliar with fusion's status and uniqueness that as an