Stevenson, Schlesinger Sabotage Mexican Gas Pipeline

On Oct 19, Senator Adlai Stevenson III (D-Ill) introduced a resolution into Congress calling on the U.S. Eximbank to halt financing for Mexico's gas pipeline to the U.S. until the price of Mexican gas can be forced down. Interviews last week with the Senator's office and with the Energy Department indicate the move was coordinated directly with Energy Secretary Schlesinger.

Already, Mexican officials have warned that the Stevenson move may jeopardize the entire $350 million Eximbank loan and, with it, hundreds of millions of dollars in orders for U.S. capital goods for the pipeline. Potential U.S. suppliers and some of the natural gas importers have complained bitterly at the linking of the Eximbank loan to price questions. They believe the price issue can be thrashed out at a later point.

The credit package drawn up in August was designed specifically for the $1.5 billion pipeline under construction from Reforma, in southeast Mexico, to the Texas border-town, McAllen. Also included is an additional $250 million Eximbank loan for collateral development of Mexico's national oil company, Pemex. The 825-mile pipeline, if not delayed, would provide U.S. consumers with 1 billion cubic feet of natural gas per day (cfd) in 1979 and more than 2 billion cfd by 1981, some four percent of current U.S. gas consumption.

This margin of Mexican gas could play an important role in preventing gas shortages this winter, if U.S. gas-import companies were reasonably certain of the 1979 timetable. Additional domestic reserves could then be tapped in the interim. The Stevenson-Schlesinger tactics, however, have totally disrupted the schedules, thus contributing directly to reduced energy supplies this winter. A Department of Energy official made it clear Oct. 26 that the Department of Energy (DOE) is fully prepared to simply shut off future Mexican gas imports if the price is "too high."

Senator Stevenson's suggested price of $1.75 per thousand cubic feet is absurd. Canadian gas currently sells for $2.16; Mexico is asking $2.62, based on equivalent energy import costs for oil; liquified natural gas is imported at $350. Mexico is willing to negotiate because it wants to export its gas, and U.S. capital-goods suppliers and the Eximbank itself are extremely anxious to push the deal through. However, Mexico will not submit to what it perceives as direct blackmail from the U.S. The Stevenson-Schlesinger efforts in this direction seem headed to wreck both the Eximbank loans and much longer-term U.S.-Mexico energy cooperation.

Stevenson's Office: Give Schlesinger Leverage

The following excerpts are taken from an Oct. 25 interview with an aide to Senator Stevenson.

Q: What was the purpose of Senator Stevenson's resolution if the period when Congress can act on this Eximbank loan has already passed?
A: Senator Stevenson's purpose was to suggest that the Eximbank, in further negotiations, should give more attention to the price factor in importing Mexican gas...Now the Secretary of Energy has to approve the import price of gas. We hope that a sense of Congress resolution will give the Energy Department more leverage in lowering the gas price.

Q: Have you sounded out Mexican reaction? The reports I have are that Mexico is extremely unhappy with the resolution and has indicated it might cancel the Eximbank deal entirely.
A: We have nothing direct from Mexico. But on the U.S. side, we've heard from export people afraid of losing the deal. You see, the potential U.S. exports are fairly interchangeable with European supplies. We've also heard from some of the gas transmission companies involved. Of course, we don't want to see the Eximbank deal fall through. We're hoping low-key pressure can be brought to bear.

Q: It certainly looks at this point like the entire loan could be jeopardized.
A: Well, the Senator feels very strongly on this price question. If the U.S. lets Mexico jack up its prices and doesn't contest it, then it leaves the door wide open to, let's say, the Saudis suddenly raising the price of oil — and the U.S. would not be in a position to do anything about it.

Q: Were you in touch with Schlesinger's office before introducing the resolution?
A: Yes, we checked with his people. We asked him if congressional support would help in getting the Mexican price down. His staff cooperated with us in providing price information.

DOE:
The Stevenson Resolution "Doesn't Hurt"

In an Oct. 26 interview, Department of Energy official Cecil Thompson explained the relationship of the DOE to the Mexican-U.S. gas pipeline stalemate, as follows:

Q: Does Secretary Schlesinger now have a role in negotiations with Mexico over gas prices?
A: There are no such negotiations at this moment. Negotiations are limited to Mexico and respective gas transmission companies.

Q: What about the Stevenson resolution? Is there a direct way the price question can be linked to the Eximbank loan?
A: There is no connection to the Eximbank loan. Stevenson's resolution is little more than a request that the Eximbank wait until there is formal regulatory review. There is no way the DOE could influence the matter directly.

Q: Stevenson's office has indicated they introduced their resolution in order to give Schlesinger more leverage in negotiating with Mexico.
A: Well, it is a legitimate question, what other alternatives Mexico really has and, therefore, if some "leverage," to use your term, cannot be brought to bear. My own view is that there is enough in terms of the deal that is good, so it should go through. ...As I understand it Eximbank is ready to finance even if the pipeline doesn't come up to the U.S. but only goes to Monterrey. The real question is whether any gas comes to the U.S. at all and at what price. I don't think the Stevenson resolution will push the matter one way or the other.

Q: But Diaz Serrano (director of Pemex — ed.) and other top government spokesmen in Mexico have reacted sharply against Stevenson's move, and stated clearly that Mexico will arrange financing and technology elsewhere rather than submit to U.S. conditions of this kind.
A: I hope the Mexicans are informed well enough not to give undue attention to the question in that way. Let me repeat that the main problem is not government to government but Pemex dealing with the individual companies.

Q: I thought the August letters of intent with six U.S. gas companies pretty much cleared the decks and subsequent negotiating was basically over secondary points.
A: I'm not so sure of that. The August agreements were just an okay initialed on the letters of intent — all subject to the companies' renegotiation.

Q: You don't think then that the question of the Eximbank loan should be linked to the price question?
A: Let me put it this way: the U.S. market is a far, far more important lever than Eximbank credits.

Q: Have you been in touch with Senator Stevenson's office to discourage him?
A: Oh no! We are not discouraging the Stevenson move. We don't need it, but I don't think it hurts. Let me just say again that it is the size of the market in its own right that will hold Mexico's attention.

Q: Once formal contracts are sent to the DOE, how long do you think the Secretary's review will take?
A: Well, we're just putting the procedures together. All I can say in the Mexico case is that there will be no hasty decision.

Q: The gas price that Mexico is asking, $2.62 per thousand cubic feet, would not appear to be so way out of line that any confrontationist posture with Mexico would be necessary. As I understand it, liquified natural gas (LNG) imports are authorized at a substantially higher level.
A: Let me make this very clear: it would be unwise and imprudent for anyone to assume that the U.S. will take natural gas at any price. If Mexico should decide to build the pipeline to Monterrey, fine. Then at some later point they could send more gas to the U.S.

Export Executive:
Exporters Out In The Cold

The following interview with an executive of a pipeline exporting firm is illustrative of U.S. industry's concern over the potential collapse of the Mexican-U.S. pipeline deal.
Q: What is your view of the Stevenson-Schlesinger attempt to block the Eximbank loan until Mexico's price can be forced down?
A: It just makes no sense any way you look at it. They can't be looking to the welfare of the U.S. We're going to lose jobs and important production contracts if the loan doesn't go through. And Mexico has made it clear it is ready to go elsewhere. There's no question that the matter is being handled extremely poorly. If it was Japan going after contracts, you can bet the government would be backing up every export firm to the hilt. But we're sitting around on our hands in the U.S., at a time when we need more and better employment. It seems a fair enough way to price gas,... the way Mexico is doing. Hell's bells, Mexico doesn't really need us. It can get the thing built and financed elsewhere....The bottom line on the thing is this: the gas is eventually going to get into the U.S., because the U.S. needs it. In the meantime, it is U.S. export producers who will be out in the cold.