This thesis studies the natural gas contract negotiations between the United States and Mexico that started in 1977 and ended in 1979. These events follow the perceived typical arc of foreign relations for the Carter Administration: a very ambitious beginning, a muddling of goals after a while, and a final product that is not as impressive as first hoped. What began as a very promising deal among six U.S. energy companies and Mexico’s nationalized oil industry Pemex not long after the inauguration of Jimmy Carter became by the end of 1977 a sore point in relations between the two countries. This, in turn, led to the involvement of Carter and his Mexican counterpart José Lopez Portillo and pushed the natural gas contract negotiations to the forefront of U.S.- Mexican relations. Mexico’s history with the United States in their oil industry, a new Department of Energy, haggling over price, and the overall level of importance of Mexico in the Carter Administration kept these negotiations from concluding until August 1979.

The Prologue telling the unconventional and sometimes difficult path this thesis took, the various unsuccessful topics, and the eventual arrival at the final product. This section also analyzes the various sources used by the author and details the difficulties faced in searching for relevant documents and other literature.

Chapter one describes the early, hopeful days of the Carter administration, when improving US relations with Mexico and negotiating a natural gas deal seemed possible. The following chapter chronicles the complex history between the United States and Mexico up
to 1976, focusing on the petroleum and natural gas industry. Chapters three and four recount the events of 1977 and 1978: the natural gas crisis, the first attempt to devise a contract to import natural gas from Mexico to the United States, the collapse of the negotiations, and the Carter administration’s reassessment of the importance of the natural gas contract.

The fifth chapter focuses on Carter’s February 14-16, 1979 visit to Mexico. By this time, Mexico’s president, Lopez Portillo, and Jimmy Carter wanted to reinvigorate the natural gas negotiations and improve bilateral relations. Chapter six discusses the successful conclusion of negotiations later in 1979. The United States began to import natural gas from Mexico in early 1980.

Chapter seven analyzes the natural gas contract negotiations. The contract between the United States and Mexico neither ameliorated the U.S. natural gas supply, nor bolstered the economy of Mexico. It is a minor but revealing episode in the long and tangled history of the two countries.
JIMMY CARTER, MEXICO, AND THE NATURAL GAS CONTRACT NEGOTIATIONS OF 1977-1979

by

AMY SUSAN VIDUNAS

A thesis submitted to the Graduate Faculty of North Carolina State University in partial fulfillment of the requirements for the Degree of Master of Arts

HISTORY

Raleigh, North Carolina

2007

APPROVED BY:

Dr. Lois Huffman

Dr. Joseph Caddell

Dr. Nancy Mitchell
Chair of Advisory Committee
DEDICATION

To my students: past, present, and future
BIOGRAPHY

My hometown is Santa Clara, California, some fifty miles south of San Francisco. I graduated from Cupertino High School in 1992. My collegiate career began at West Valley Community College in Saratoga, CA. I graduated from Cal State University Hayward (East Bay) in 1996 with a major in Liberal Studies and a minor in History. I received my Multiple Subject teaching credential from San Jose State University in December 1997. I currently teach fifth grade for the Cupertino Union School District, the same district I attended from kindergarten through eighth grade.
TABLE OF CONTENTS

PROLOGUE.................................................................1

CHAPTER ONE: Entwined from the Start..........................................22

CHAPTER TWO: The United States and Mexico: A Tangled History............28

CHAPTER THREE: The Natural Gas Pipeline, 1977: The First Attempt............38

CHAPTER FOUR: 1978: Setbacks and Reevaluation................................48

CHAPTER FIVE: President Carter’s Visit to Mexico-February 14-16, 1979......56

CHAPTER SIX: The Beginning of the End........................................62

CHAPTER SEVEN: In the End.....................................................68

BIBLIOGRAPHY...............................................................71
PROLOGUE

It’s ironic that as someone writing a master’s thesis in History, I don’t remember the exact date I fell in love with United States History. What I do remember occurred during the winter of 1983 in Mrs. Virginia Howe’s third grade classroom in Room Eleven of Dwight D. Eisenhower Elementary School in Santa Clara, California. During Silent Reading, I randomly grabbed a book from the class bookcase located right next to my desk. As fate would have it, the book was about the first thirty-six United States presidents from George Washington to Lyndon B. Johnson. I knew the current president, Ronald Reagan, was number forty; that afternoon I went home determined to find out who were presidents thirty-seven, thirty-eight, and thirty-nine. After that, there was no looking back. My mission became to memorize all forty presidents in order and to learn as much as I possibly could about each one. Those thirty-nine men soon took over my eight-year-old life as I went through all the history books in school library. My cousin Patty added fuel to the fire that spring when she gave me The Presidents of the United States Full Color Flash Cards upon returning from her trip to Washington, D.C. I was in heaven. Now I could study the flash cards and then give them to someone else to quiz me about when a president was born, what was his home state, when was he elected, and so on.

My next touchstone came in the summer of 1991. I spent seven and a half weeks in a blue 1981 Ford van with my father, mother, brother, and two sisters driving cross-country through the southern United States, up the East Coast, and back across to California. In a few short weeks, we visited Raleigh, North Carolina; Williamsburg and Richmond, Virginia; Washington, D.C; Philadelphia, Valley Forge, and Gettysburg, Pennsylvania; New York
City; Boston, Lexington and Concord, Massachusetts. My brother and sisters soon grew
tired of all the old houses and historical landmarks, but I loved every minute of it. There
simply wasn’t anything to compare in California; buildings from the seventeenth and
eighteenth century are few and far between here. Only a few of the Missions founded by the
Spanish in the 1700s have managed to survive earthquakes intact. In 1776, as our Founding
Fathers walked the streets of Philadelphia and Boston, the now sprawling city of San Jose,
California (which borders Santa Clara) was just being founded as a pueblo (small town).
After that summer of travel, I promised myself I would somehow figure out a way to spend a
year of my life living on the East Coast so I could easily travel to all the great historic cities
and sites.

That opportunity presented itself in the fall of 2001. I was in my fourth year of
teaching fifth grade at Dilworth Elementary School in San Jose in the Cupertino Union
School District, the same district I had attended. A number of my colleagues were pursuing a
master’s degree in education from local universities. I had made the decision after I began
teaching that if I were ever going to get a master’s degree, it would be in History. History
was the main reason I was teaching fifth grade in the first place. After taking over Social
Studies in the fifth grade classroom where I did my student teaching, I knew I could never
teach the younger children. I wanted the grade level where I could pass on my love and
knowledge of United States history to my students, and more importantly, teach the students
who could understand and appreciate the curriculum. Furthermore, I felt if I were really
going to accomplish this, I should follow my dream to go to school on the East Coast. I
I knew I could safely take a leave of absence for one year and have a job when I returned. It was now or never, so to speak.

During the 2001-2002 school year, along with correcting papers, doing report cards, copying worksheets, and planning lessons and units, I took the GRE and applied to six universities on the East Coast. North Carolina State University responded first with a thick envelope that let me know even before I opened it that I was accepted. I was off to live in Raleigh for a year to do nothing but be a student and travel up and down the East Coast to my heart’s content. Better yet, with relatives in the area, I had plenty of support close at hand.

That 2002-2003 school year lived up to all of my expectations. I loved being a student again: taking notes, listening to lectures, having in-depth discussions on history, reading articles and books, interacting with professors and fellow students, and even taking exams. I knew I had made the right decision when I found out that my Colonial and Revolutionary War class would be taking a weekend field trip to Jamestown Settlement and Colonial Williamsburg in Virginia. That fall semester pushed me beyond what I thought I was capable of as I tackled researching and writing history papers for the first time in eight years in four graduate history classes.

Since I was going to be a student in North Carolina for only one year, I had to have my thesis committee set and a tentative plan for my topic before I returned home to California. Putting together my committee, even with one professor backing out just weeks before I left North Carolina, proved to be a walk in the park compared to coming up with a thesis topic. The esteemed committee members finally comprised: Dr. Nancy Mitchell as my
thesis chair with Dr. Joe Caddell from the History Department, and Dr. Lois Huffman from the Department of Curriculum and Instruction.

Dr. Mitchell’s field of expertise is United States Foreign Relations, which meant my thesis had to have a foreign relations angle. After a few discussions, I began some preliminary research. My topic was, in a nutshell, former California Governor Edmund G. (Jerry) Brown and his attempt to establish an independent foreign policy with Canada, Mexico, and Japan. This seemed to be a perfect fit. It had the foreign relations angle required by Dr. Mitchell, with a Californian as the main focus. Theoretically, I would easily be able to complete my research and the writing of my thesis while 3000 miles away on the other side of the country.

During the 2003-2004 school year, I took a leave of absence as a student from the History Department. (This was more of a financial decision than anything else; after not receiving a salary for over a year, I needed the time to financially recover.) I returned to teaching fifth grade that fall at a new school with a new science, math, and writing curricula and a completely revamped electronic report card. Simply adjusting to and learning the ins and outs of a new principal, teachers, school site, and community proved to be exhausting and time-consuming.

In that year, however, I made the first of what was to become many, many trips to the Dr. Martin Luther King, Jr. Library in San Jose.¹ Brown had first made a splash on the national political scene in 1976 after beating Jimmy Carter in a couple of early presidential

¹ The Dr. Martin Luther King, Jr. Library in San Jose is a joint effort between the city of San Jose and San Jose State University. The library serves as both a branch library of the city and the main library for the university.
primaries for the Democratic Party. In 1978, there seemed to be a mad rush among publishers as to who could print their book first on this bachelor governor who was the son of former Governor Edmund G. (Pat) Brown, who lived in an apartment instead of the governor’s mansion, who dated Linda Ronstadt, and who many believed could take the 1980 Democratic presidential nomination away from Carter. But the books offered little in the way of the information I needed on Brown’s overseas trips and only covered part of Brown’s first term. The State Archives in Sacramento offered even less information. Brown, not surprisingly, had decided to break with the tradition of every governor since Earl Warren and had given all of his papers to the University of Southern California in Los Angeles at the request of a professor, instead of to the state archives. The state archives had a grand total of four boxes for the entire eight years Brown served as governor. The Los Angeles Times, The New York Times, and the Sacramento Bee were the only sources that printed any information about Brown’s trips to Canada, Mexico, and Japan. Each trip seemed to follow an unfortunate pattern of a bit of fanfare prior to the trip, press releases and meetings while on the trip, a short press conference upon returning, and nothing newsworthy just a few weeks later. No substantial agreements or projects came from any of Brown’s overseas trips.

By the end of the summer of 2004, I had hit a brick wall. Not wanting to abandon Jerry Brown, I expanded my topic to comparing what the governors of California, Arizona, New Mexico, and Texas accomplished vis a vis Mexico with what the Carter administration achieved in bilateral relations with its southern neighbor did during his presidency. The idea came from an article I found on a meeting Brown attended in Mexico. At the meeting were the governors of bordering states from Mexico and the United States. With this new topic, I
returned to the State Archives in Sacramento in search of documents on the Southwest Regional Border Conference. Regrettably, my results were the same as with Brown himself; there was virtually no information about that meeting or any subsequent meetings between the governors.

That fall I also began my research on Jimmy Carter and Mexico. Among the few documents produced with a search of the Digital National Security Archive was a 120-page Presidential Review Memorandum on Mexico. Expanding my topic to include a president was proving to be very fruitful. The amount of information I found by including Carter seemed enormous compared to the amount I had found with just Brown. Now I felt my main problem was not a lack of information, but a lack of time. My leave of absence with the master’s program had ended, and I was required to produce evidence I was progressing on my thesis. This proved to be quite difficult during the fall as I had a full plate with parent-teacher conferences, report cards, science camp, and just the day-to-day stuff that came up with having thirty-three students. Then the Monday after Thanksgiving, all hell broke loose at Stevens Creek Elementary School. A fellow fifth grade teacher filed a lawsuit against the principal, the superintendent, and all the school board members. In an effort to garner publicity, the legal firm representing this teacher sent out a national press release with the very inflammatory statement that my school’s principal had banned the Declaration of Independence. The three weeks between Thanksgiving and our Holiday Vacation became an absolute nightmare as I dealt with nasty messages on my voicemail, fellow staff members receiving threats, a constant police presence on campus, parents and students concerns, and news stations broadcasting from the front of the school. I knew this situation had reached
epic proportions when Dr. Huffman emailed me the link to The New York Times story on the lawsuit and my school.²

I fared no better the spring of 2005. As the school year wore on, it became increasingly difficult to work with the staff member who filed the lawsuit. Since he was another fifth-grade teacher, it was a situation I could not avoid. It also seemed like each time the spotlight would start to fade on the lawsuit, another group or person from outside the Bay Area would pick up the story and bring a fresh round of disturbing phone calls and emails to my school and classroom. As the leading site representative to my union, the Cupertino Education Association, I had to set up and participate in numerous extra meetings. The number of meetings increased following the publication of a lengthy article in The New Yorker.³ The constant stress took a toll on my health and in mid-April I came down with pneumonia. It took all of my physical and emotional strength to make it to the end of the school year. The stress of dealing with the fifth grade teacher who filed the lawsuit did not go away until the last day of school on June 10.

That summer of 2005 proved to be highly productive as I spent several hundred hours at the libraries of Santa Clara University and San Jose State University. I was still holding on to my topic of comparing Carter’s foreign policy with Mexico to that of the governors of California, Texas, New Mexico, and Arizona during the years 1977-1980. Since finding information on Governor Brown had been so frustrating, I decided to focus first on gathering

² Dean E. Murphy, “The Nation: God, American History, and a Fifth-Grade Classroom,” The New York Times, 5 December 2004, late ed.: D4
information on Carter and his dealings with Mexico, correctly figuring there would be far more information on a president than on any governor.

I thought Mexico would feature prominently in Carter’s administration. Mexico bordered California, the most populous state in the country, and Texas, the state with the longest international border. With all the issues of the border, shared waterways, imports, exports, immigration, narcotics, prisoners, and tourism, it would be no problem whatsoever finding a vast amount of information. My estimate on the amount of information on Carter and Mexico, however, proved to be very incorrect.

Carter’s foreign policy plate was full from the start. In 1977, the Cold War, the U.S.S.R., and communism, were still going strong, the United States was still in the beginning stages of normalizing relations with China and the problems of the Middle East figured prominently on the world stage. Closer to home in Latin America, Carter had to concern himself with Cuba and Fidel Castro, the Panama Canal, and revolution in Nicaragua.

The two major databases focused on presidents and foreign relations documents provided very little to aid my topic. The Declassified Documents Reference System contained a grand total of twenty-two documents. The Digital National Security Archive had over 400. However, all but six of those had Nicaragua, the Iranian Revolution, Guatemala, El Salvador, or nuclear non-proliferation as the main focus; Mexico was merely mentioned in the document. Those six remaining documents added up to grand total of 124 pages, with 116 of those being the Presidential Review Memorandum (PRM-41).4 Three of those six

4 There are two versions of Presidential Review Memorandum-41 in the Digital National Security Archive. The first does not contain a cover memo, whereas the second contains a cover memo from Christine Dodson: the first is redacted and the second is not. See,
documents are one-page authorizations of PRM-41 that were sent out to various administration officials and departments.

Books on Carter’s foreign policy offered very little, if any, information on Carter’s dealings with Mexico. If anything, they supported the hypothesis that in the realm of Latin American countries, Mexico was overshadowed by Panama, Nicaragua, Cuba, and El Salvador during the Carter Administration or that the most important events with Mexico was the fact that the Shah of Iran lived there in exile. Donald Rothchild’s article “Jimmy Carter and Latin America: A New Era or Small Change?”5 mentions the problems with migration from Mexico, with one sentence about natural gas importation. In the Absence of Power, Governing America by Haynes Johnson (1980) covers first two years of Carter presidency with nothing whatsoever on Mexico. The Carter Presidency and Beyond: Power and Politics in the 1980s by Laurence H. Shoup (1980) contains a section on foreign policy and mentions Mexico possibly joining the Trilateral Commission.


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The two sources that did contain information on Mexico other than in relation to the Shah offered precious little of value. Morality, Reason, and Power: American Diplomacy in the Carter Years by Gaddis Smith (1986) was one source. In Chapter 5 “Panama Success and Latin American Failure”, Smith devotes the last three paragraphs to Mexico, following sections on Panama, Cuba, Nicaragua, El Salvador, Grenada, and the ABCs (Argentina, Brazil, Chile). The natural gas contract is mentioned in same sentence with water pollution and illegal narcotics control as examples of agreements between the two countries. The Shah of Iran’s trip and the border (illegal immigration) are deemed most important. Donald S. Spencer in The Carter Implosion: Jimmy Carter and the Amateur Style of Diplomacy (1988)
devotes three pages of text total to Mexico. Unfortunately, he uses most of it to discuss the status of the average Mexican, the Mexican economy, and the border in the late 1970s. Spencer does spend about a page on natural gas contract. He considers the whole affair to be a complete disaster, particularly Carter’s visit to Mexico.

During that summer of 2005, the one place I discovered to have a vast amount of information was major newspapers, namely The New York Times and The Washington Post. Due to a paper I did in Dr. Mitchell’s class on the coverage by those two papers of the pre-Solidarity movement in Poland during the 1970s, I was extremely comfortable with the indexes of the papers and finding articles on microfilm. Newspapers have always been the main source of news for me. Reading The San Jose Mercury News with breakfast has been a part of my morning routine for as long as I can remember. For the past several years, The San Francisco Chronicle has joined the Mercury News every Friday, Saturday, and Sunday at my house. As an elementary school teacher, those newspapers are my way of keeping up with events in the world because it is simply too distracting and downright impractical to keep a television or radio on or to be checking websites every hour. The end result of finding so much information from newspapers was that by the end of the summer I felt very comfortable dropping the governors from my topic completely to focus on Carter and his foreign policy with Mexico.

Since I was now focusing exclusively on Carter, a trip to the Jimmy Carter Library in Atlanta, Georgia became a must. I spent the last three days of September 2005 copying anything and everything the Carter Library had on Mexico. My philosophy was: when in doubt, make a copy. The trip was very demanding because I had to plan two weeks of
teaching prior to leaving, take a red-eye flight to Atlanta on Tuesday, September 27, return on Sunday October 1, and go back to work on Monday, October 2. That month of October became a blur as parent-teacher conferences started a week after I returned and the entire fifth-grade left on October 17 for our four-day, three-night outdoor education school trip in the Cupertino Foothills. Thankfully, outdoor education school proved to be a bit of a respite and I was able to sort the 850 some-odd pages of documents I had copied at the Carter Library. The NCSU History Department agreed to reimburse the cost of my plane ticket, so I had little financial strain to bear from the trip.

After sorting all the documents, I found myself with over twenty categories of documents. The categories covered a wide range of topics including oil spills, tomatoes, water, fishing rights, and sewage treatment. The categories with the largest number of documents were: a prisoner-exchange treaty, the natural gas contract negotiations, narcotics, and migration. I decided to focus my thesis on those four rather than try to flesh out all those different categories in the space of my thesis. My thesis committee agreed to the change.

That fall I also discovered The American Presidency Project database. This is a public database available for anyone with web access (www.presidency.ucsb.edu). John Woolley and Gerhard Peters run the database of the American Presidency Project at the University of California at Santa Barbara. It is a database of over 72,000 documents on every single president with every document available in print form. The site is simply mind boggling with thirty-two different categories that include executive orders, signing statements, press conferences, interviews, and radio addresses. A person can search by date, president, topic, executive order number, public paper number, or proclamation order. The
site also contains audio clips, links to the presidential libraries, election information, and political party convention information. The one small downfall to the site is that the majority of its information is on the modern presidents, starting with Franklin D. Roosevelt. However, anyone who is doing any research whatsoever on a president must use this site.

Spring of 2006 brought the last of the changes to my thesis topic. I flew back to North Carolina during my spring break in April and met with each one of my thesis committee members. Unhappily, I did not present my committee members with the amount of work I had planned to accomplish. A very demanding group of students, a massive flu bug that had almost half of my class absent over a three-week period, and the wettest March on record sapped me of any extra time and energy.6

The one positive that came from those meetings was the decision to have my thesis focus solely on the natural gas contract negotiations between Mexico and the United States during Carter’s term as president. This decision made quite a bit of sense. The groundwork for the prisoner exchange treaty between the two countries had begun under President Gerald R. Ford and Carter signed the treaty early on in his presidency. In 1977, Mexico’s oil reserves had not been fully validated, let alone developed enough to export. Carter and his counterpart Lopez Portillo were simply looking forward to a new opportunity for good relations between the two countries that had soured in the early 1970s. Yet the discovery of oil reserves held great promise for the United States and Mexico. For Mexico, it could provide the massive source of income needed to tackle larger issues such as poverty and lack

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6 Stevens Creek Elementary School, like many others in California, does not have an indoor lunchroom or gymnasium. Therefore, on rainy days, the students spend the entire day in the classroom.
of economic opportunity. By increasing income, Mexico could, conceivably lessen the amount of illegal narcotics produced in the country and the number of people who crossed illegally into the United States searching for jobs. For the United States, this oil could be a safe, close, non-OPEC source of the valuable commodity. Carter came into office facing a massive natural gas shortage in the northeast. From the outset, energy was a high priority for Carter:

there was never a moment when I did not consider the creation of a national energy policy equal in importance to any other goal we had… our national security was at stake….We were the only developed nation without an energy policy.  

Carter faced an uphill battle, though. As he himself recognized, by the time he took office in 1977, the oil embargo of 1973 was practically forgotten and energy had not even been an issue in the 1976 campaign. The issues of migration and narcotics had been major issues between the United States and Mexico for presidents both before and after Carter. The natural gas contract negotiations began and concluded during the Carter presidency and became, for a time, the leading issue between the two countries. Finally, I had a topic that had plenty of documents to use and analyze and that had not been written on by someone else. After three years of doing nothing but compiling documents, I could begin to write my thesis.

That summer I again spent many hours at the Dr. Martin Luther King, Jr. Library. I found that I simply did not have enough information on the natural gas contract negotiations, and once again, finding information became difficult. Memoirs from Carter, National  

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Security Advisor Zbigniew Brzezinski, and Secretary of State Cyrus Vance posed a number of problems. First and foremost, memoirs are inherently flawed because the writer does his/her best to present him/herself in the most positive light. This held true for Carter, Brzezinski, and Vance. Second, Carter’s memoir *Keeping Faith* focuses on his work with the Middle East almost to a fault. Mexico is mentioned only in conjunction with the fall of the Shah of Iran. The timeline found at the start of the book does not even mention Carter’s three-day trip to Mexico in February 1979. Third, Vance’s book *Hard Choices: Critical Years in America’s Foreign Policy* does little more than describe and defend his involvement with the main foreign policy events of the Carter Administration. I was left with the impression that Vance was trying to prove he had been an active participant in the shaping of Carter’s foreign policy by constantly trying to reassert the Department of State’s position ahead of the National Security Council. Plus, Vance did not stay the whole term, resigning after the failed rescue attempt of the American hostages in Iran. Most of all, Vance does not make any mention of Mexico. Finally, Brezinski’s book, once more, has Mexico as part of the events with the fall of the Shah. Lopez Portillo is mentioned, but only as a world leader Carter and Brzezinski disliked.  

Nevertheless, Brzezinski’s memoirs proved to be useful for me. Brzezinski began working with Carter on foreign policy objectives prior to his election and stayed with Carter through the whole presidency. He outlines and explains each of the ten foreign policy goals set out by Carter at the start of his administration. While none of the goals specifically

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mentioned Mexico or Latin America, two of the goals were relevant to U.S. relations with Mexico:

2. To weave a worldwide web of bilateral, political, and where appropriate, economic relations with the new emerging regional “influentials,” thereby widening, in keeping with historical circumstances, our earlier reliance on the Atlantic community.

3. To develop more accommodating North-South relations, political as well as economic, so as to develop greater economic stability and growth in the Third World, diminish hostility toward the U.S., lessen Soviet influence, and increase the stake those nations would have in good relations with the North and the West. 10

Brzezinski tracks each goal through each of the four years and describes how the goals changed with the world-wide events of the fall of the Shah, the Soviet Union invasion of Afghanistan, and the deepening energy crisis. He analyzes the whole foreign policy of Carter, not just his own actions. It is the most comprehensive out of all the memoirs from the Carter administration.

My reliance on newspapers proved to be an Achilles’ heel in the fall of 2006. After submitting a first draft, Dr. Mitchell responded I must widen my span of sources. She suggested a number of books and articles on Mexico and oil. The works included natural gas, but did not have it as the main focus. I was devastated at the thought of having to do more research, but warmed to Dr. Mitchell’s suggestion, once I began investigating the suggested sources.

Two articles brought out my bias toward The New Yorker. I was quite cynical about articles from the magazine after what had been published about the school where I taught. An article by George W. Grayson titled “The U.S.- Mexican Gas Deal and What We Can

10 Ibid.,53-54.
Learn from It”11 and an article by Jesus Puente Leyva, “The Natural Gas Controversy,” in *Mexico- United States Relations*,12 footnote an article from an October 15, 1979 article titled “The Mexican Oil Puzzle” by Joseph Kraft in *The New Yorker*.13 Levya’s article has one footnote from the article, and Grayson’s has six. The information in those footnotes was available elsewhere and neither add nor detract from the articles. As for Kraft’s article itself, it is a wandering article that begins with a short synopsis of Mexico’s revolutionary spirit in the early 20th century, then goes on to the author’s quest to determine if “Mexico could become a major supplier of petroleum products to the United States,”14 then moves to brief descriptions of interviews with President José Lopez Portillo and various Petróleos Mexicanos (Pemex) officials, followed by his one-day trip to several Mexican oil fields, and ending with a very quick overview of the natural gas contract negotiations. Kraft does little to explain the relationship between natural gas and oil and gives virtually nothing on how the United States and Mexico began the natural gas contract negotiations. Kraft’s overview of the natural gas contract negotiations focuses on events in early 1979, skipping over 1978 and including very little from 1977, when the negotiations actually began.

The number of books published on Mexico and oil in the late 1970s reminded me of the books on Jerry Brown. Mexico made huge waves on the international oil scene with the discoveries of massive reserves in the early 1970s. By the mid-1970s, the reserves had been verified. In the early 1980s, it seemed as if anyone with any experience or knowledge on

14 Ibid., 153.
Mexico or oil was asked to write an article or publish a book. Once again, I was left with the impression that publishers were rushing to print a book on the topic. Fortunately, unlike the works on Brown, these books contained valuable and usable information. Some books, however, proved to be more valuable than others.

The format of Robert A. Pastor (who was the NSC expert on Latin America during the Carter years) and Jorge G. Castañeda’s book *Limits to Friendship: The United States and Mexico* is the largest asset of the book. ¹⁵ For each topic, such as government, foreign policy, the economy, and the border, Pastor and Castañeda alternate giving a point of view for the United States and then for Mexico. By using this point-counterpoint method, the authors are able to provide the reader with immediate comparable or contrastable information.

Several books include articles on Mexico’s oil or other energy resources. *U.S.-Mexican Energy Relationships*, edited by Jerry R. Ladman, Deborah J. Baldwin, and Elihu Bergman, is one. The editors just added a “Discussion Summary” page between each of the articles. *Mexico-United States Relations*, edited by Susan Kaufman Purcell, is the same, minus the “Discussion Summary”. All the articles in this book were first published together by the Academy of Political Science in their journal. I found all useful articles in the original journal publication form or on JSTOR, the academic journal database. Interestingly enough, both of these books were published in 1981.

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Richard B. Mancke’s *Mexican Oil and Natural Gas: Political, Strategic, and Economic Implications* was very useful, even though it was published before the negotiations over the natural gas contract had concluded. Mancke does an excellent job of explaining the various aspects of the Mexican oil industry as they developed since 1876. His goal is clearly to have the reader understand the differences between the Mexican oil and energy industry and the American oil industry. He leaves his analysis of how Mexico’s oil could be useful to the United States until the penultimate chapter of the book. It is a good, solid work on the history of Petróleos Mexicanos (Pemex), how Mexico could benefit from the oil discoveries of the 1970s, the problems that could prevent Mexico from fully capitalizing on the discoveries, and how all these situations could affect the United States.

For me, the works that were the most informative were those by George W. Grayson. Grayson, a professor in the Government Department at the College of William and Mary, is a widely published author of numerous books on various Latin American countries and topics. In 1980 and 1984, Grayson wrote books about Mexico. The first, *The Politics of Mexican Oil*, chronicles in great detail the path of Mexico’s oil industry from the earliest days in the 1800s. Grayson does a complete analysis of the contemporary Pemex, including the structure of the company, goals, problems, relationship to the government, reliability, effectiveness as a company, and the role of oil in U.S.-Mexican relations. Grayson devotes a nineteen-page chapter to the natural gas contract negotiations, but his book was published prior to when the United States actually

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began to import the gas. The other work, The United States and Mexico: Patterns of Influence,\textsuperscript{18} discusses a wider range of topics: a brief history of U.S.- Mexican relations in the nineteenth and early twentieth centuries, relations under Luís Echeverría, Mexico’s relations with Cuba and other Caribbean countries, Mexico’s participation in GATT, immigration, and an analysis of Mexico’s 1982 economic crisis. Oil and energy supplies were still dominant topics, so Grayson dedicates a chapter to these with the natural gas contract covered part of this chapter. These two books incorporate much of the material that is covered in three articles he wrote between 1980 and 1983.

I must thank an enormous number of people for their help and support through this thesis. To start with, my mother Natalie Vidunas and my father Jim Vidunas. Mom, thank you for the countless hours of proofreading, editing, and correcting. Dad, thank you for the constant pushing and financial support. To my brother Jimmy and my sisters Laura and Carol, thank you for simply putting up with me. To my best friends Tiffney Coney and Margery Llacuna, thank you for all the listening and encouraging. To my aunt Mary Stascak and her husband Charles Burkant, thank you for the free lodgings, warm meals, and moral support on each trip to Raleigh. To my friends from the graduate program, Sarah Campbell, Lisa Combes (Noonan), and Daire Roebuck for always believing that I too would one day have my degree from the History Department of North Carolina State University. To the staff of Dilworth Elementary School, thank you for supporting this crazy endeavor from the start. To the staff of Stevens Creek, especially my fifth grade cohorts Sarah Beetem and Scott Henderson, thank you for helping to bring this to a close. To Dr. Mitchell, Dr.

Huffman, and Dr. Caddell, thank you for taking me on in the first place. To all, thank you for never losing faith in me.

This thesis has been a project of a lifetime. It is the result of my blood, sweat, and tears. At times I have felt the universe was against my finishing it. As I write this in April of 2007, a recent medical diagnosis of an underactive thyroid has me dealing with a new medication that has left me constantly drowsy, doctor’s orders to work only until lunchtime, multiple trips to the hospital, and trying to finish this thesis. I have no great words of wisdom to end with, only happy thoughts of what I will do with all my free time.
CHAPTER ONE: Entwined from the Start

Within the two-month period of December 1976 through January 1977, Mexico and the United States swore in new presidents, a coincidence that had not happened since the 1950s. On December 1, 1976, Mexico swore in its new president, Jose Lopez Portillo. Attending the ceremonies in Mexico City was a twelve-member delegation from the United States. President-elect Jimmy Carter’s wife Rosalyn attended as a guest of Mexican first lady Carmen Romano de Lopez Portillo. As stated in the *New York Times*, this was “a significant gesture of goodwill toward the incoming Mexican Government … sending an unusually high-level delegation to the inauguration ceremonies.” Diplomats in both Mexico City and Washington, D.C. viewed Mrs. Carter’s attendance as a symbol of hope that relations between the two countries that had deteriorated under outgoing Mexican President Luis Echeverría Álvarez and U.S. President Gerald Ford were about to improve. These hopes were strengthened when Mrs. Lopez Portillo attended the inauguration of President Carter some eight weeks later.

Carter’s inauguration on January 20, 1977 came in the midst of a record-breaking cold front that blanketed the entire region east of the Mississippi River. This cold front was responsible for bringing snow to Miami for the first time since records began in the 19th century, freezing the Ohio River from bank to bank, and causing the Coast Guard to close

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Sandy Hook Channel, the main entrance to New York Harbor. It was also responsible for the first crisis of the Carter Administration, a natural gas shortage that caused General Motors and Ford to stop production for four days, schools in Indianapolis, Pittsburgh, and Cleveland to shut down, and factories from New York to Georgia to close. On his first day in office, Carter issued a statement on the natural gas crisis “calling on all Americans…to turn their thermostats down to 65 degrees in the daytime and lower at night.” The statement continued with Carter stating his confidence in our ability to respond effectively with this [natural gas] crisis and reduce our consumption to manageable levels over the remainder of the winter…. Today’s energy crisis is a painful reminder that our energy problems are real and cannot be ignored. This nation needs a coherent energy policy and such a program of energy action will be formulated promptly.

Carter followed through on his promise. A week after taking office, Congress held hearings on a bill to transport and deliver emergency supplies of natural gas to cities and states in need. Carter signed the bill, his first, on February 2, 1977. The bill, and the

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24 Ibid.
accompanying Executive Order, gave the president emergency powers to purchase, transport, and deliver natural gas to any state deemed in need of an immediate supply. In his statement released to the press, President Carter thanked Congress for passing the legislation, California Governor Jerry Brown for allowing conserved gas to be diverted to eastern states, and President of Mexico José Lopez Portillo for “transferring large quantities of oil and natural gas to our country.”

Lopez Portillo and the natural gas crisis continued to make news in the coming weeks. The New York Times reported a week after the emergency legislation that factories and schools in New York and New Jersey slowly reopened, while schools in Columbus, Ohio remained shut due to the continuing natural gas shortage. Lopez Portillo became the first head of state to see President Carter in Washington, D.C. with a three-day visit beginning on February 14, 1977. At the Welcoming Ceremony, President Carter remarked that the meeting between the two was “just the first stage of an increasingly close relationship that President Lopez Portillo and I, and the people of Mexico and the United

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States will enjoy in coming months.” Following these remarks, the president again thanked Lopez Portillo for Mexico’s help during the recent natural gas crisis. Lopez Portillo’s statement echoed the sentiments expressed by Carter saying,

I am absolutely convinced that if these conversations take place within a framework of good faith, we shall be able to overcome and transcend and solve many of the problems which it is natural should exist between neighbors.

On February 17, 1977, Carter and Lopez Portillo released the United States-Mexico Joint Communiqué. The twelve-sentence statement reiterated the sentiments expressed by Carter and Lopez Portillo at the Welcoming Ceremony and listed the various topics discussed by the two leaders. Energy, the one topic that would come to dominate relations with Mexico and the area in which Carter would make the most progress, was buried in the middle.

The two Presidents considered carefully a number of important subjects including economic and monetary questions, investment, trade, immigration, narcotics, smuggling, and some illicit activities, agricultural exchanges, energy, nonproliferation of nuclear arms, Mexico’s desire for increased and improved access to international financial institutions and capital markets and the need to seek a better balance in trade between the two countries.

It was into this mix that six energy companies in the United States began talks with Mexico’s nationalized oil company Petróleos Mexicanos (Pemex) over the idea of importing

35 Ibid.
natural gas in early 1977. The six companies soon found themselves squabbling with the Carter Administration over an acceptable price and dealing with the newly created Department of Energy. By the end of the year, Mexico had rescinded its offer to sell the natural gas and stated there was no surplus available. Late in 1978, the Carter Administration became determined to import the natural gas. Mexico continued to state the natural gas was unavailable and would be used domestically. This back and forth continued through the start of 1979, Carter’s February visit to Mexico, Lopez Portillo’s September visit to Washington, D.C., until a deal was finally reached in December. Overshadowing the entire proceeding was the long history between Mexico and the United States over oil and energy.

The United States-Mexico natural gas contract negotiations would follow the perceived typical arc of foreign policy of the Carter Administration. The negotiations began in an extremely ambitious and promising manner. Then the goals became muddled, the process bogged down, and the goals changed. There was something to show in the end, but it was not as significant as had been originally hoped. Some scholars point to U.S.-Mexican natural gas contract as a success of the Carter Administration, while others consider it another failure. While a contract was eventually signed, it sharpened tensions between the

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37 Any production or extraction of oil comes with a quantity of natural gas, termed associated gas. The gas can be dissolved in the oil or be one of the layers of the gas pool. Traditionally, it has not been as easy to transport as oil. Any natural gas must travel via a pipeline to market. If a market for the natural gas is not located near the supply, oil companies would burn off any natural gas from oil production. Natural gas can also be found in pools without oil. It can be condensed into liquid form, with the most common being ethanol, butane, and propane. Approximately 6000 cubic square feet of gas is equal to one barrel of oil in terms of heat content. See Clark A. Hawkins, *The Field Price Regulation of Natural Gas*, (Tallahassee, Florida State University Press: 1969) 1-19.
two neighbors, it did not help the United States increase its supply of natural gas, and it did not significantly improve Mexico’s financial situation. The promise of the early days of the Carter Administration was not fulfilled.
CHAPTER TWO: The United States and Mexico: A Tangled History

In his toast to President Jose Lopez Portillo at the first state dinner on February 14, 1977, President Jimmy Carter began his remarks by noting the similarities in the histories of the United States and Mexico. President Carter remarked

> We declared our independence in 1776… and shortly after that in 1810, the Mexican people declared their independence as well… we share a great common history with our friends and neighbors… from Mexico, and we also share a tremendous commitment to the early vision of those who sought equality and… freedom.38

The history of relations between the United States and Mexico has not been filled with diplomacy, fairness, or equality. This started not long after Mexico claimed independence from Spain in 1810. Mexico lost enormous parts of its country to the United States in the subsequent forty years. In 1836, Texas seceded from Mexico and became part of the United States in 1845. Then in 1848, the Treaty of Guadalupe Hidalgo ending the Mexican-American War gave approximately one-half of Mexico to the United States. Following the end of the Civil War, the United States stood by as Mexico dealt with a second French invasion by Napoleon III, and the installation of Ferdinand Maximilian of Hapsburg as Emperor of Mexico.

Following the ouster of Maximilian, power reverted back to Benito Juarez. Porfirio Diaz wrested the presidency from Juarez’s successor, Sebastian Lerdo de Tejada, in 1876. Under Mexican leader Porfirio Diaz, direct investment by foreign companies was highly encouraged. Between 1876 and 1911, U.S. businessmen helped expand Mexico’s rail network from 417 miles to over 15,000 in 1911. Mexico became the world’s leading producer

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of silver and second in copper as the Guggenheim mining interests extended control over 840 of the 1000 foreign mining companies in Mexico in 1908. Foreign companies also created a huge imbalance in land ownership. In 1910, some 90 percent of Mexico’s peasants owned no land while foreign companies owned almost 25 percent of the land, with U.S. companies owning half of that.39

Oil had been used in Mexico since the days of the Aztecs for incense, boat caulking, medicine, dye, and glue40 but Mexico’s petroleum industry did not begin until Díaz’s rule at the start of the 20th century. As with other industries, the investment came from foreign companies, particularly American. In 1900, American Edward L. Doheny established the Mexican Petroleum Company of California. In 1908, Englishman Weetman Pearson founded Compañía Petróleo “El Águila”. Both companies were helped tremendously by the decision of Winston Churchill, who was then First Lord of the Admiralty, to switch the British Royal Navy from coal to oil in 1912 and also by Henry Ford’s transformation of the U.S. automotive industry.41 Díaz worked to prevent either company from monopolizing the petroleum industry, but he “encouraged the work of men of both countries by sponsoring helpful legislation and assisting land acquisition.”42 Díaz also allowed all drilling and refining equipment to be imported duty-free, the exemption of capital stock from almost all federal taxes, and unlimited exploration for petroleum and petroleum products.43 The two

39 Grayson, *The United States and Mexico*, 17.
41 Grayson, “Mexico’s Opportunity,” 111.
43 Ibid.
men and their oil companies were extremely successful. Pearson was knighted in 1911, and Doheny became known as the millionaire who would later send $100,000 in cash to Secretary of the Interior Albert B. Fall in the Teapot Dome scandal under President Warren G. Harding.

Following Díaz’s ouster in 1911, Mexico began a six-year period of civil war and revolution. In 1914, President Woodrow Wilson sent U.S. troops to occupy the port city of Veracruz, declaring that it was the best way to prevent the revolutionary government of General Victoiano Huerta from receiving arms from Germany. Two years later in 1916, General John J. Pershing led 6000 troops into Mexico to fight Pancho Villa after the rebel killed 18 Americans in Columbus, New Mexico. The actions of the U.S. and Villa had no ill effects on Mexico’s petroleum industry. The number of barrels produced for export climbed from 3.9 million in 1908 to 55 million in 1914; spurred by British demand in World War I, the oil industry continued to expand unfazed.

On February 5, 1917, the unrest in Mexico ebbed with the election of Venustiano Carranza under the provisions of the new Mexican constitution. Carranza overturned the laws of Díaz that allowed foreign exploration and ownership of Mexican natural resources. Under the Constitution of 1917,

Article 27 declared that the nation was the original owner of all lands and vested in the nation direct dominion over all minerals, including ‘petroleum and all hydrocarbons solid, liquid, or gaseous.’ It described this dominion as inalienable and

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44 Ibid., 10.
46 Pastor and Castañeda, Limits to Friendship, 44.
47 Grayson, The United States and Mexico, 22.
48 Grayson, Politics of Mexican Oil, 10.
49 Grayson, The United States and Mexico, 22
impresscriptible… Furthermore, only Mexicans by birth or naturalization would have
the right to obtain concessions to develop mines or mineral fuels in Mexico.\textsuperscript{50}

A few months later, Carranza declared all oil companies would have to pay taxes on leases
made prior to May 1, 1917. U.S. oil companies complained to officials in Washington, D.C.,
asking President Wilson for military intervention at the oil field of Tampico, stating the taxes
would impede wartime production. After President Wilson refused, the various oil
companies turned to the Mexican court system, filing 150 injunctions in 1918-1919.
Fortunately for the oil companies, taxing leases was as far as Carranza ever went. No leases
were revoked nor were any foreign companies nationalized. In fact, the years of 1917-1921
were known as a ‘golden age” in Mexican oil production.\textsuperscript{51}

Carranza’s rule ended in 1920 as the Agua Prieta political party led by Alvaro
Obregón and Plutarco Calles overthrew him.\textsuperscript{52} Obregón served as president from 1920-1924
and Calles from 1924-1935. For most of his rule, Calles was able to placate his countrymen
and the oil companies. Calles publicly criticized the foreign oil companies while at the same
time creating a legal basis for their existence.

In this way, he was able to encourage the economic development of Mexico’s oil
regions-and earn some extra income for the highways, schools, and other welfare
programs sanctioned in the revolutionary constitution- while assuaging the vociferous
left wing in Mexican politics, which demanded the removal of foreign oil
companies.\textsuperscript{53}

In 1925, President Calles passed a law requiring the oil companies to obtain new 50-year
leases to replace those from before the 1917 that allowed an unlimited duration. Oil

\textsuperscript{50} Mancke, \textit{Mexican Oil and Natural Gas},43.
\textsuperscript{51} Ibid., 47.
\textsuperscript{52} Ibid., 48.
\textsuperscript{53} Ibid., 49.
companies in the U.S. protested vehemently, stating it was the equivalent of confiscation. The U.S. Government agreed and responded by reducing Mexican investments. President Calles met with the U.S. ambassador and agreed to amend the 1925 law to allow “owners and lease-holders who had acquired their subsoil concessions prior to May 1917 the opportunity to apply for confirmatory concessions” of unlimited duration.54

In 1935, Lázaro Cárdenas ran Calles out of the country and assumed the presidency. He saw it as his mission to restore Mexico to the ideals and social goals of the Revolution. Buoyed by new leadership, petroleum workers formed The Union of Oil Workers of the Mexican Republic (Sindicato de Trabajadores Petroleros de la Republica Mexicana-STPRM) on August 15, 1935. On July 20, 1936, the union drafted the industry’s first collective bargaining agreement.55 After the oil companies refused to sign a contract giving a 40 million peso wage-hike, the STPRM ordered an industry-wide strike on May 28, 1937.56

In order to avoid a full-scale collapse of Mexico’s economy, the STPRM petitioned the Federal Board of Conciliation and Arbitration to declare the dispute a national emergency, allowing the workers to return to work while the agency prepared its report. The agency’s report sided with the workers, stating the oil companies could afford a 26 million peso wage-hike as opposed to the 14 million pesos being offered by the oil companies. After four months of negotiating with no end in sight, the oil companies appealed to the Mexican Supreme Court for an injunction.57 On March 1, 1938, the Court sided with the workers,

54 Ibid.
55 Grayson, Politics of Mexican Oil, 14.
56 Mancke, Mexican Oil and Natural Gas, 52.
57 Ibid., 53
The companies refused to comply with the ruling. The oil workers responded by suspending work throughout the entire petroleum industry on March 18, 1938. At 10:00 P.M. that day, President Cárdenas announced over the radio the expropriation of seventeen American and European corporations. In his speech, Cardenas said

It is evident that the problem which the oil companies have placed before the executive power of the nation by their refusal to obey the decree of the highest judicial tribunal is not the simple one of executing the judgment of a court, but rather it is an acute situation which drastically demands a solution. The social interests of the laboring classes of all the industries of the country demand it. It is to the public interest of Mexicans and even of those aliens who live in the Republic and who need peace first and afterwards petroleum with which to continue their productive activities. It is the sovereignty of the nation which is thwarted through the maneuvers of foreign capitalists who, forgetting that they have formed themselves into Mexican companies, now attempt to elude the mandates and avoid the obligations placed upon them by the authorities of this country.

On June 7, 1938, Petróleos Mexicanos, or Pemex, was formed. The Mexican Supreme Court upheld the legality of the expropriation on December 2, 1939.

Attempts by the U.S. oil companies to retaliate against Mexico or to recoup financial losses proved unsuccessful. An oil-lobby-backed decision by the U.S. Treasury Department to stop purchasing Mexican silver ended up having little effect as the Treasury only canceled a special order and continued to purchase the silver on the open market. President Franklin Delano Roosevelt publicly accepted Cárdenas’ promise to repay only the invested dollars by U.S. firms, minus depreciation. Roosevelt also warned the U.S. oil companies to not expect

58 Ibid., 54.
60 Ibid.
61 Ibid., 26.
compensation on projected future earnings. Looming war in Europe and Mexico’s openness to the idea of selling crude to the Nazis further moderated Roosevelt’s position toward Mexico, Cárdenas, and Pemex. Making sure the U.S. oil companies were fully compensated was not a priority for Roosevelt. Making sure Mexico did not align itself with Germany was. By the end of 1941 Secretary of State Cordell Hull, frustrated by years of delays by the U.S. oil companies, began negotiations with Pemex on compensation, without the consent of the U.S. firms. The final agreement ratified on April 2, 1942, had Mexico giving $40 million to settle U.S. claims. The United States, in turn, agreed to purchase up to $25 million worth of Mexican silver, furnish $40 million in credits to stabilize the peso, lend Mexico $30 million through the Export-Import Bank for road construction, and negotiate a commercial treaty.

Following this agreement, Mexico resumed exporting oil to the United States. Less than two months later on May 30, Mexico declared war on Germany.

The World War II years were a time of close relations between the two countries. Members of the Mexican military trained in the United States and were part of several U.S. overseas operations. The U.S. began the bracero program which allowed seasonal agricultural workers from Mexico to legally enter the United States. In April 1943, Roosevelt visited Cárdenas in Mexico, the first time a U.S. president had met face-to-face with Mexico’s president since 1909.

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62 Ibid., 27.
63 Ibid., 27.
64 Grayson, The United States and Mexico, 27.
65 Roosevelt’s April 20, 1943 meeting with Cárdenas was not publicized because Vice-President Henry Wallace was also out of the country touring South America. This is the only time in U.S. history that both the president and the V.P. have been out of the country at the same time.
The close relations between the two countries continued following the end of World War II until the late 1960s, even with the ending of the bracero program in 1964. Mexican presidents Miguel Alemán Valdés (1946-52), Adolfo Ruiz Cortines (1952-58), Adolfo López Mateos (1958-1964), and Gustavo Díaz Ordaz (1964-70) oversaw years of steady economic growth and large foreign investment, particularly from the United States. These presidents met with U.S. presidents a total of twelve times between 1945 and 1970. The major point of disagreement came after 1959 over the issue of Cuba. “Mexico… refused to support ousting Fidel Castro’s regime…, endorse sanctions, or sever diplomatic ties.”

In June of 1969, the close relationship of the United States and Mexico began to change. President Richard M. Nixon ordered essentially a border shutdown for three weeks under Operation Intercept. According to Nixon, the purpose was that, “Mexico was not doing enough to combat drug traffic into the United States.” In late 1970, Luis Echeverría Alvarez was sworn in. Then in 1971, the United States imposed a ten percent import tax duty.

Echeverría sought to lessen Mexico’s dependence on foreign capital, especially from the United States. A new 1973 law stipulated “foreign investment in new ventures could not control more than 49 percent of the capital of Mexican corporations.” That same year Echeverría supported the passing of a law that stated any foreign company receiving payment from Mexican companies for technology use or license must register

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66 Grayson, *United States and Mexico*, 32.
with the Ministry of Trade and Commerce, or the payment would be revoked.\textsuperscript{69} Plus the Ministry of Trade would determine if any such payment was even warranted.

Echeverría’s administration oversaw the purchase of stock in two major U.S.-held companies, the Cananea Mining Company and the Pan-American Sulfur Company, turning them basically into state-run enterprises. Echeverría sought to increase Mexico’s sovereignty with visits to Cuba, China, and the Soviet Union. In 1975 Echeverría announced the establishment of “’an exclusive economic zone’ extending 200 miles from its [Mexico’s] coastline,”\textsuperscript{70} and his country’s recognition of the Palestinian Liberation Organization. The first event prevented other countries from harvesting resources in the Gulf of California, and the second brought calls for a boycott from Jewish organizations in the United States.

By the early 1970s, Mexico had gone from an oil-exporting nation to an oil-importing nation. This prompted vast geological exploration by Pemex. The explorations revealed oil and natural gas reserves far beyond expectations. In December 1976, the company revised previous estimates and stated oil reserves of 11,160 billion barrels of oil, an increase of almost twenty percent in just ten years.\textsuperscript{71} Needless to say, these figures caused quite a stir. “Discoveries of massive hydrocarbon deposits have converted Mexico from a neglected stepchild of the petroleum world to a dazzling Cinderella,”\textsuperscript{72} is how one expert described the situation. Numerous books and articles were published analyzing the accuracy of Pemex’s announcements, reviewing the history of Pemex, noting the positive aspects of the company,

\textsuperscript{69} Grayson, \textit{The United States and Mexico}, 42.
\textsuperscript{70} Ibid., 47
\textsuperscript{71} Grayson, “Mexico’s Opportunity,” 112.
\textsuperscript{72} Grayson, “The U.S.-Mexican Natural Gas Deal,” 573.
questioning the feasibility of Mexico producing higher levels of oil and gas, and so on. For the United States, these discoveries meant a reevaluation of relations with its southern neighbor in the hopes of capitalizing on this new source of energy. These new discoveries substantially altered opportunities for Mexican development and offered the United States an important new source of oil with reduced vulnerability to political and military developments beyond the hemisphere.\footnote{PRM- 41: 22.} The Mexican government and Pemex were extremely eager to promote rapid development of their oil and natural gas industry. The goal of Pemex was, by 1976 to “eliminate imports of ammonia, methanol…, ethylene oxide, polyethylene, vinyl chloride…, and other products vital to agricultural activities and the secondary petrochemical industry.”\footnote{Grayson, \textit{Politics of Mexican Oil}, 48-49.} By end of the 1970s, Pemex had hopes to “assure the nation self-sufficiency in gasolines, fuel oils, lubricants, and other products as well as surpluses for export.”\footnote{Ibid.}
CHAPTER THREE: The Natural Gas Pipeline, 1977: The First Attempt

Due to increased demand at home, Mexico’s emergency export of natural gas to the United States in February of 1977 marked the first time in several years that Mexico had sold natural gas to the U.S.\textsuperscript{76} Not long after, on April 18, 1977, Carter famously called the energy crisis “the morale equivalent of war” in an Address to the Nation.\textsuperscript{77} The discovery of new oil and natural gas reserves in southern Mexico in 1976 coupled with the demand of a U.S. market, had director-general of Petr\'oles Mexicanos (Pemex) Jorge D\'iaz Serrano making a very promising announcement on June 1, 1977. D\'iaz Serrano’s announcement at the dinner for the National Energy Foundation in New York City stated Mexico’s plans to incorporate supplying the United States into its plans for a 1200-mile pipeline that would start in the gas fields of southern Mexico and run along the Gulf to Mexico’s northern cities.\textsuperscript{78} Some two months later, \textit{The Wall Street Journal} announced

\begin{quote}
The Mexican national gas agency is negotiating with several U.S. interstate natural gas pipeline companies for the sale of gas from the Reforma and Gulf of Campeche areas of Mexico.\textsuperscript{79}
\end{quote}

The following day \textit{The New York Times} stated that Pemex had signed a letter of intent to sell natural gas to a group of six energy companies in the United States, with a full agreement on price and quantity to follow in a few months.\textsuperscript{80} Making up the group of six

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\textsuperscript{76} “Mexico to Start Exports of Natural Gas to U.S. Within Days for 2-Month Period”, \textit{The Wall Street Journal}, 4 February 1977: 2.
\textsuperscript{77} Carter, \textit{Keeping Faith}, 91.
\textsuperscript{79} “Mexico Agency Seeks to Sell Natural Gas to Several U.S. Firms”, \textit{The Wall Street Journal}, 4 August 1977: 4.
\end{flushleft}
energy companies were the Texas Eastern Transmission Company, the Transcontinental Gas Pipeline Corporation, the Florida Gas Company, the Southern Natural Resources Company, the El Paso Natural Gas Company, and Tenneco Incorporated. The article also stated that Pemex would sell the gas at the same price as Number 2 light fuel oil, landed at New York Harbor, which was currently $2.50 per 1000 cubic feet, for an initial six-year term with provisions for a second six-year term. It also noted the United States was currently paying $2.16 per 1000 cubic feet for natural gas from Canada, and that President Carter had recently proposed an upper limit of $1.75 per 1000 cubic feet for new gas imports. Finally, Pemex was seeking financing from the Export-Import Bank and other international sources to help build the pipeline that would be completed in 1980.  

Number 2 light fuel oil, or diesel, was chosen as the price base since it is similar in quality and energy output to natural gas.

On the exact same day the six American energy companies signed the letter of intent with Pemex, August 4, 1977, James R. Schlesinger was sworn in as the first Secretary of Energy after Carter established the Department of Energy. Schlesinger, who had served as Secretary of Defense under Nixon and Ford, had been part of the Carter operation since the campaign and had been working on a national energy plan before Carter’s inauguration. In Carter’s opinion,

[Schlesinger] was a shrewd analyst of the international scene, and would have been qualified to serve as Secretary of State or to return to his former position as

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81 Ibid.  
83 Carter, *Keeping Faith*: ix  
84 Ibid., 96.
Secretary of Defense. Instead he and I both understood that when a new Department of Energy was formed, he would be its first secretary.\textsuperscript{85}

In his remarks on establishing the DOE, Carter acknowledged the challenges facing this new department that would be bringing together some fifty governmental agencies.\textsuperscript{86} Carter also stated the overall purpose of the department, to

begin to deal in a much more aggressive and effective way not only with the needs of suppliers to increase the production of oil, gas, coal, solar, nuclear powers, but also make sure that consumers of our country are treated fairly, that prices are adequate and not excessive.

Schlesinger found himself squabbling with the leaders of Pemex, the leaders of Mexico, and the six U.S. companies almost immediately. Ultimately, this independent man who had served both parties also found himself at odds with many in the Carter administration.

Carter’s National Energy Plan, released in April of 1977, stated that U.S. energy companies had been keeping domestic natural gas prices artificially low.\textsuperscript{87} As such, a new price ceiling of $1.75 per thousand cubic feet for new domestic natural gas would take effect at the start of 1978, an increase of $0.33 over the current price ceiling.\textsuperscript{88} Additionally,

The gap between demand and production in the lower 48 states will have to be filled from new sources, such as Alaskan gas; the Outer Continental Shelf; deeper, tighter onshore formations; the geopressurized zones along the Gulf Coast; synthetic natural gas; and imported liquefied natural gas. \textsuperscript{89}

\begin{flushleft}
\textsuperscript{85} Ibid.
\textsuperscript{88} Ibid., xviii.
\textsuperscript{89} Ibid., 18.
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The Secretary of Energy also had difficulty with the provision that tied the price to number 2 light fuel oil. At the time, there was no worldwide pricing scale for natural gas. Number 2 light fuel oil prices were dictated by OPEC. Even though Mexico was not a member of OPEC, it did follow the pricing set by the organization. In addition, the U.S. energy companies had always filed for approval on pricing from the Federal Power Commission. (Until the creation of the DOE, the Federal Power Commission had been in charge of setting and approving energy rates as authorized by the Federal Power Act of 1935.) However, the Federal Power Commission no longer existed as a separate entity as it was one of the agencies adsorbed into the DOE. Furthermore, pricing control had been transferred to another agency under the new DOE umbrella, the Federal Energy Regulatory

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90 At this time, there was no world-wide pricing standard for natural gas being exported/imported to another country. Other than between the United States and Canada, the only other instance was between Iran and the Soviet Union for less than $.50 per Mcf. Number 2 light fuel oil was used because it has an equal caloric (energy) output as natural gas. As a fuel oil, number 2 did have a world-wide pricing standard under OPEC.

91 Grayson, Politics of Mexican Oil: 195

92 In 1954, the Supreme Court decided in Phillips Petroleum Company v. Wisconsin et al. that the Federal Power Commission had jurisdiction over prices at the wellhead and when the gas was sold to pipelines for the purpose of resale to consumers. Following this ruling and until 1960, the FPC decided wellhead rates on an individual basis. This led to an enormous backlog of 3278 filings. In 1960, the FPC divided the U.S. into twenty-three regions. Each region would have its own price ceiling. “As the first years of the 1970s passed, it became apparent that the area ratemaking approach was simply too cumbersome to permit the (Federal Power) Commission to react promptly and responsively to changing conditions in wellhead markets. By 1974 the Commission had completed rate-marking proceedings in less than half of the 23 geographic areas. In addition, as the demand for gas increased rapidly over this period, it became apparent that area rates already established were too low and would have to be reviewed. These prospects, together with an increasing gas shortage, led the Commission to reassess its ratemaking practices. Instead of setting rates by areas, the FPC moved to a policy of establishing nationwide price ceilings.” See in Ronald G. Braeutigam, “The Deregulation of Natural Gas,” Case Studies in Regulation: Revolution and Reform, ed. Leonard W. Weiss and Michael W. Klass, (Boston, Little Brown and Company: 1981). 151-152.
Commission. The six energy companies were required to have approval from this Federal Energy Regulatory Commission before importation could begin. As the leader of the newly-minted DOE, Schlesinger could not endorse or justify the six companies paying the proposed $2.60 per 1000 Mcf for imported Mexican natural gas and still promote the growth of the domestic natural gas industry, a key component of Carter’s overall plan.\footnote{Carter, \textit{Keeping Faith}, 92. “We desperately needed a comprehensive program that would encourage conservation, more fuel production in the United States, and the long-range development of alternative forms of energy.”}

One week later on August 12, 1977, the \textit{Los Angeles Times} reported that the consortium of six U.S. companies had petitioned the federal government “to give “the highest possible priority to consideration of the proposed import permit.”\footnote{“Six U.S. Firms Seek Quick OK to Import Mexican Gas”, \textit{Los Angeles Times}, 12 August 1977: C15.} On August 16, 1977, \textit{The New York Times} stated that an official of the Export-Import bank had had a meeting in Mexico City to discuss a $400 million loan to begin construction on the natural gas pipeline, hopefully to get underway by the end of the year.\footnote{“Export-Import Bank May Lend Mexico $400 Million for Pipeline”, \textit{The New York Times}, 16 August 1977: 51.} \textit{The New York Times} continued to be optimistic about the pipeline, and the amount of natural gas to be imported from Mexico, although it did note officials were worried the pipeline would not be large enough to meet U.S. needs.\footnote{Alan Riding, “Planned Mexican Pipeline for Gas Feared Too Small for ’82 Supply”, \textit{The New York Times}, 24 September 1977: 27.}

On November 9, 1977 Pemex announced that it had given the six U.S. companies a December 31, 1977 deadline to complete their plans to import Mexican gas. \textit{The New York Times} explained:
If Pemex does not reach agreement with Tenneco, Texas Eastern, El Paso, Transco, Southern National, and Florida Gas by the deadline, officials in Mexico said they will seek other buyers. The Mexicans have offered the gas at a firm price of $2.60 per thousand cubic feet.  

Both papers noted Congress’s dislike of the price, with members preferring to pay $2.16 per 1000 cubic feet, what the United States was paying Canada. Less than a month later on December 1, 1977, the Los Angeles Times reported President Lopez Portillo had stated at a press conference Mexico would not lower the price from $2.60 per thousand cubic feet just to ensure financing for constructing the pipeline.

The clash between the United States and Mexico over the price continued to worsen as the December 31, 1977 deadline approached. A Wall Street Journal article from December 3 reported the Carter Administration’s unhappiness with the $2.60 price. The administration backed a price of $1.75, which was what American companies could charge for domestic use under the new energy plan. Even though the Carter Administration had no power to directly force the six U.S. companies to accept the $1.75 price, import regulations required that the six companies had to have approval from U.S. regulatory government agencies to begin importing the natural gas, thus giving the DOE indirect control of the situation. To put pressure on the six U.S. companies, Senator Adlai Stevenson (R-

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101 Ibid.
Illinois) introduced a resolution to hold up the Export-Import Bank loan until the Department of Energy had been given the opportunity to review the price.\textsuperscript{102} The six companies had been willing to sign a contract for a price of $2.16, but Pemex had refused the offer.\textsuperscript{103} Carter could force energy companies to accept a price on domestic natural gas in emergency situations only.

On December 17, 1977, \textit{The New York Times} printed an article with the headline, “American Price for Mexican Gas in Doubt.” The article explained the Mexican government’s frustration with the Carter administration and described how officials and experts on both sides predicted little, if any, resolution of the matter before the December 31 deadline. Furthermore, the Carter administration held up disbursement of a $580 million credit to Pemex from the Export-Import Bank until a “binding contract” had been executed.\textsuperscript{104} The situation between the two countries had not changed a few days later when Mexican President Lopez Portillo vowed to hold out for top price.\textsuperscript{105}

Nine days before the deadline of December 31, Lopez Portillo ordered Pemex to suspend its offer to sell natural gas to the United States. In addition, Pemex was not to renew the memorandum of intent with the six U.S. companies.\textsuperscript{106} Both the offer and work on the final leg of the pipeline to the U.S. border would remain suspended until Mexico and the

\textsuperscript{102} Ibid.
\textsuperscript{103} Ibid.
United States reached an agreement on price.\textsuperscript{107} Schlesinger met with Mexico’s Foreign Minister Santiago Roel and Diaz Serrano in Washington, D.C. on December 21 and 22, 1977.\textsuperscript{108} During the meetings, Schlesinger tried to get the equivalent changed to number 6 fuel oil, which had a price of $2.35. Mexico held fast to the number 2 fuel oil. “The secretary of energy, in a manner perceived by the visitors as insulting, abrupt, and arrogant, adamantly rejected this demand.”\textsuperscript{109} It was after these meetings Pemex announced it would not renew the memorandum with the U.S. companies. On December 29, 1977, “Secretary of Energy James R. Schlesinger declared that the Carter Administration would not permit the importation of natural gas at the prices currently demanded by Mexico.”\textsuperscript{110} While abandoning the price of $1.75, Mr. Schlesinger stated the Carter Administration was unwilling to establish a price above that being paid to Canada.\textsuperscript{111} This statement, \textit{The New York Times} declared, “reinforced a growing likelihood that the tentative agreement reached in August between Mexico and six American natural gas companies is virtually dead.”\textsuperscript{112}

One of the main problems facing the Carter administration was that in dealing with Pemex, a nationalized company, it was dealing with the Mexican government itself. An example of this was that each new Mexican president chose the head of the company, the director-general. It is a truly nationalized company with no distinction between the government and the business. There was no Mexican governmental agency setting

\textsuperscript{108} Ibid.
\textsuperscript{109} Grayson, \textit{Politics of Mexican Oil}, 194.
\textsuperscript{111} Ibid.
\textsuperscript{112} Ibid.
regulations on the oil industry; all regulations came from Pemex. Also, Mexico’s government sought to reverse the past—when foreign companies profited from Mexico’s natural resources and invested little in the Mexican people—by mandating that Pemex should strive to maintain high employment and low prices on petroleum for domestic use.\footnote{Mancke, \textit{Mexican Oil and Natural Gas}, 78.}

Unfortunately, previous experience with U.S. industrialists eager to capitalize on Mexico’s natural resources had left President Lopez Portillo and the head of Pemex unsure they would receive a fair deal. Mexico was eager to profit from its energy resources, but as the NSC noted:

\begin{quote}
sensitized by history to the extent of U.S. power, many Mexicans still fear that U.S. unilateralism, organization, and technology could overwhelm their cultural identity or keep problems from being resolved to a mutual advantage.\footnote{PRM- 41, 4.}
\end{quote}

Furthermore, Pemex collected taxes on behalf of the Mexican government and was “required to pay a percentage of its gross income to the government as royalties.”\footnote{Ibid.} The company is a major source of Mexican patriotism and dignity since the oil industry was the first one under the 1917 Constitution to come under domestic ownership. Finally, Pemex disliked foreign interference at almost every level.

Pemex’s lack of a distinction between a government agency and a private business is one of the reasons President Carter became personally involved in a deal to import natural gas. In 1977, the six U.S. energy firms only needed regulatory approval from the government on the final price of the natural gas. There was no other involvement by the U.S. government. It was not until the original letter of intent expired and President Lopez Portillo
moved it to the forefront of U.S.-Mexican relations that those outside the Department of Energy became involved.
CHAPTER FOUR: 1978: Setbacks and Reevaluation

January 1978 saw no renewal from the United States to resume negotiations of a contract to import natural gas from Mexico. Pemex Director General Jorge Diaz Serrano publicly stated on January 5 that Mexico was “prepared to wait ‘two or three years to sell its natural gas to the United States rather than lower the price”\(^{116}\) U.S. Vice President Walter Mondale raised the issue of the natural gas contract when meeting with Lopez Portillo during his January 20-22 visit to Mexico City only to leave without any resolution.\(^{117}\) Diaz Serrano reaffirmed his position in the Pemex annual report released in March.\(^{118}\) A May visit by Secretary of State Cyrus Vance to Mexico City also brought no resolution to the situation.\(^{119}\)

By June, Mexico was stating it would not sell natural gas to the United States, even if the U.S. agreed to pay the $2.60 per 1000 cubic feet.\(^{120}\) On August 14, 1978, National Security Advisor Zbigniew Brzezinski sent out the memorandum stating President Carter had authorized the Policy Review Committee of the National Security Council to “undertake a review of relations with Mexico. The central objective… is to develop a coordinated and well integrated approach to our relations with Mexico.”\(^{121}\) Three months later, Diaz Serrano

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announced, “The gas isn’t for sale now… The gas we wanted to sell you would come in as we increased crude production. But we are now using it in Mexico.”

In October 1978, the Carter Administration began to pursue a reopening of negotiations for the natural gas contract between Pemex and the six U.S. companies. The New York Times noted that, “Washington is anxious to reopen talks on gas sales by Mexico.” Deputy Energy Secretary John O’Leary was quoted in the Wall Street Journal saying, “We have felt that we were constrained in proceeding because of the total preoccupation with the gas bill. We feel we can now turn our attention to the Mexican gas transaction.” Both papers also noted Lopez Portillo was still refusing to sell natural gas to the United States.

November 1 signaled the start date of the Natural Gas Policy Act of 1978, the first new federal legislation on natural gas since 1935. The goal of this legislation was to simplify the pricing of natural gas at the wellhead to keep up with consumer demand and to set up the natural gas industry for a phased deregulation of new gas and gas produced from high

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125 “As the first years of the 1970s passed, it became apparent that the area ratemaking approach was simply too cumbersome to permit the [Federal Power] Commission to react promptly and responsively to changing conditions in wellhead markets. By 1974 the Commission had completed rate-marking proceedings in less than half of the 23 geographic areas. In addition, as the demand for gas increased rapidly over this period, it became apparent that area rates already established were too low and would have to be reviewed. These prospects, together with an increasing gas shortage, led the Commission to reassess its ratemaking practices. Instead of setting rates by areas, the FPC moved to a policy of establishing nationwide price ceilings.” Braeutigam, “Deregulation,” 151-152.
cost sources. Deregulation for some categories of natural gas were set to begin as early as 1979, while other categories would not be deregulated until 1985 or would continue to be under federal regulation. For the natural gas industry, the largest change would come from the regulation of intrastate gas prices. This category had never been regulated at the federal level and was not set for deregulation until 1985. The act also gave the president the power in emergency situations to declare a natural gas supply emergency. This would allow the president to authorize pipelines and local distributors to purchase gas at any price he believes appropriate. If those purchases are insufficient to meet designated high-priority needs, the President can reallocate gas supplies as necessary.

By December 1978, the Carter Administration was, both publicly and privately, aggressively pursuing new negotiations with Mexico. In a press conference on December 7, Carter mentioned his upcoming February 1979 visit to Mexico and stated optimistically We’ve also had negotiations with them earlier this year on the purchase or pricing of natural gas, and, perhaps, eventually oil, as those fields are developed. Because of the uncertainty of congressional action on the energy legislation, they were postponed, with agreement on both sides, until after the Congress adjourned. Those will be recommenced, and I would guess we’ll do some background work on that before I arrive in Mexico to conclude, hopefully, these continuing negotiations.

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126 “Old gas” refers to gas produced with oil and “new gas” to gas produced without oil. “High cost gas” refers to gas from very deep wells or other sources such as geopressurized brine or Devonian shale. The federal government makes the determination if a gas qualifies as “high cost”.
Four days later on December 11, 1978, Staff Secretary of the National Security Council Christine Dodson sent a Memorandum to State Department Executive Secretary Peter Tarnoff requesting

a detailed chronology of negotiations between the U.S.—government and private sector—and Mexico from January 1977 to the present. Either within the chronology or as a separate memorandum, describe our view and Mexico’s of the negotiations, and provide an analysis of what went wrong in the negotiations. 129

_The Washington Post_ announced the existence of Presidential Review Memorandum -41 (PRM/ NSC-41) on December 15. The _Post_ stated its purpose was to examine the major issues between Mexico and the United States focusing on reducing illegal immigration, current trade relations, Mexico’s emerging power in Latin America, and Mexico as another source of oil besides the Middle East. 130 The article also noted President Carter’s upcoming visit to Mexico, stating,

> The first priority of Carter’s February visit to Mexico will be to unsnarl embarrassing loose ends from a natural gas sale approved by Mexican President Lopez Portillo that was killed last year by Energy Secretary Schlesinger. 131

The National Security Council issued PRM/NSC-41 on November 29, 1978. It was fully declassified on August 3, 1999. As stated on its opening pages, the main problem facing the Carter administration was that “relations with Mexico are increasingly important and delicate,” and so the administration needed to decide whether to approach each issue

131 Ibid.
separately or in conjunction with one another. For those who might have questioned the importance of Mexico, PRM/NSC-41 emphatically pointed out

Developments in Mexico over the next generation will influence what many Americans do for a living, even who Americans are, and how they treat each other…. our interests now involve everything from jobs to ethnic policy human rights to narcotics, and from social security to national security.

Energy, that is oil and natural gas, was listed first under the reasons for the U.S. to have an increased interest in Mexico.

Part of the problem facing the Carter administration was the direct relationship between natural gas production and oil production. While the National Security Council was pulling together PRM/NSC-41, the U.S. Senate Foreign Relations Committee and the Joint Economic Committee was issuing a final report titled *Mexico’s Oil and Gas Policy: An Analysis*, after holding hearings on the topic the previous March 19-21. The report made two facts abundantly clear.

First, Mexico has the proven reserves to be a significant oil and gas producer over the next few years. Second, unless the United States buys Mexican gas, Mexican oil production will be limited. Because of the large volumes of natural gas mixed with the oil, Mexico cannot produce oil without producing a large quantity of natural gas.

Also in the report was the conclusion that if the Mexicans were going to properly capitalize on exporting their oil and natural gas, they would have to export the majority of it to the United States. Moreover, if the United States ever hoped to make any headway on the major issues of migration, trade, and narcotics, it would need to make sure Mexico had a viable, 

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132 PRM-41, 2.
133 Ibid., 3.
and legal, source of jobs and income. The only way that would happen was if the United States became the largest purchaser of Mexico’s oil and natural gas as soon as feasible. Furthermore, if the United States was hoping to reduce its imports of oil from the Middle East, the most secure and accessible alternative source was Mexico. And if the United States was going to purchase large quantities of Mexico’s oil, it might as well purchase the large quantities of natural gas that came with the oil.

PRM/NSC-41 agreed with the Congressional Report’s findings on two main points. First, that the United States was the best customer for Mexico’s natural gas. It noted, “We are…. the only feasible external market for Mexican gas (unless the Japanese are prepared to invest heavily in liquification facilities)”\(^\text{135}\). Second, the development of Mexico’s oil and natural gas industries would end up having the highest impact on migration, trade, narcotics, and Mexican society in general.

Mexico…will soon have the resources to begin to attack its basic problems. Oil is almost certain to bring about profound changes in Mexico’s economy, its social structure, and its politics.\(^\text{136}\)

Both documents agreed that the United States needed to supplement natural gas supplies in the lower 48 states with natural gas from Alaska, Canada, and other sources.

The two differed, however, on the economic benefits for the United States. According to the Congressional Report, by 1985, natural gas from Mexico would cost the same as natural gas from Canada. The two sources would be significantly cheaper than natural gas from Alaska, synthetic natural gas, liquefied natural gas, and gas from coal,

\(^{135}\) PRM-41, 30.  
\(^{136}\) Ibid., 70.
therefore, the imported natural gas would be the best buy for the American consumer. 137

According to PRM/NSC-41,

Whether such imports would exert a positive economic impact on the U.S. would depend largely on price and displacement factors. From a strict supply standpoint, because National Energy Act incentives have spurred new domestic production, we do not now “need” Mexican gas, and are unlikely to need it until the mid 1980s. 138

More importantly, importing Mexican natural gas at a price lower than that of Alaskan natural gas “would run counter to the production incentives provisions of the National Energy Act and might jeopardize the Alaskan pipeline.” 139 Plus, there was the potential of having to pay an additional $900 million for Canadian natural gas already being imported. Ultimately, however, “Lopez Portillo, who had staked personal prestige on the gas deal as a sign of the advantages of close cooperation with the U.S., was bitterly disappointed at our failure to reach agreement.” 140

PRM/NSC-41 outlined three options for the Carter Administration in negotiating a natural gas contract with Mexico. They were: one, to seek the purchase of natural gas primarily as an investment in broader cooperation; two, to seek the purchase in terms of U.S. energy objectives; or three, to defer the negotiations until the Mexican position had softened. 141 Each came with its own set of advantages and disadvantages. The first had the potential to strengthen U.S.- Mexican relations and gain Mexico’s support on other issues, but could raise the cost to American consumers and push Canada toward asking for a price increase. The second, viewing U.S. energy objectives above all else, could either stabilize

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137 United States. Mexico’s Oil and Gas Policy.: 48.
138 PRM -41, 22.
139 Ibid., 23.
140 Ibid., 28.
141 Ibid., 9-10.
prices, but it could damage bilateral relations significantly. With the third option, the U.S. would have a longer time to evaluate the effectiveness of the National Energy Act on natural gas supplies and would not discourage Mexican oil production. However, the option could “impact negatively on bilateral relations and would disappoint some U.S. state and private interests.”

Whichever option the Administration decided to use, Carter’s visit to Mexico in February 1979 was of the utmost importance to U.S.-Mexican relations. Those inside the Administration and in the press felt the goodwill that had been present at the start of 1977 between Carter and Lopez Portillo was fast disappearing. As PRM/NSC-41 noted, “Disproportionate reactions have already taken place in both countries over energy policy, agricultural trade, illegal migration, narcotics control, water use, even fence-mending.”

142 Ibid. 10.
143 Ibid. 17.
CHAPTER FIVE: President Carter’s Visit to Mexico-February 14-16, 1979

Contrary to Carter’s statements at the beginning of his term about the importance of Mexico, the country ended up being very low on his list of international priorities. It was swamped by concerns for human rights, relations with the Soviet Union, China, and the Middle East. In February 1979, when Carter headed to Mexico, he was consumed with worries about the Iranian revolution, the Camp David Accords, and to steer SALT II through the Senate. On the day Carter began his visit in Mexico, the U.S. Ambassador to Afghanistan, Adolph Dubs, was assassinated and the U.S. Embassy in Tehran was attacked. Within Latin America, President Carter was more concerned with returning the Panama Canal to Panama, the rise of the Sandinistas in Nicaragua, and curbing Cuba’s activities in Africa than he was with anything to do with Mexico. In his memoir Keeping Faith, Carter makes no mention of his February 1979 visit to Mexico. 144

Mexico began 1979 by dashing the hopes of the United States of having an oil and natural gas agreement ready for Carter to sign during his upcoming visit. On January 5, Lopez Portillo announced there would be no dramatic increase in daily oil production, even with the new discoveries, and there was still no natural gas available for export to the U.S. 145 The White House found itself at odds with Energy Secretary James R. Schlesinger after he declared that he wanted to place a higher priority on domestic development of a more-costly natural gas pipeline from Alaska instead of focusing on cost-effective imports of natural gas from Mexico, or any other country. Schlesinger stated Mexico should lower its price to

144 Carter, Keeping Faith, xi.
$2.35, the same as residual fuel oil.\textsuperscript{146} A few days after Schlesinger’s speech, a meeting chaired by NCS staffer Henry Owen was held to discuss the possible fallout from the speech on the upcoming visit. This was done because Schlesinger had not cleared the speech prior to delivering it, and Carter was not prepared to make any refuting statements. The group concluded Carter should not engage in direct negotiations with Lopez Portillo, and while Schlesinger’s speech may have had a positive impact on Mexico’s position toward the U.S, there was no way to substantiate the prices Schlesinger had stated.\textsuperscript{147} President Carter, in a press conference a week later, stated he had not lost interest in purchasing natural gas and oil from Mexico, though negotiating a purchase price would not happen during his upcoming visit.\textsuperscript{148} By the end of January, Schlesinger had reversed himself by stating the U.S.’s only opposition to importing natural gas from Mexico was the price.\textsuperscript{149} President Carter publicly agreed with Secretary Schlesinger’s sentiment of not paying a higher price for Mexican oil or natural gas.\textsuperscript{150}

In the week prior to President Carter’s visit to Mexico, the negotiations for Mexican oil and natural gas were viewed in the U.S. press as the leading issue for Carter to resolve with Lopez Portillo. The press also felt this visit was Carter’s chance to improve the United States damaged relations with Lopez Portillo and the Mexican people. When asked by a

\textsuperscript{147} Memo, Robert Paster to Zbigniew Brzezinski through Henry Owen, 1/13/79 “Mexico,” Box Mexico, WHCF-Vertical File, Jimmy Carter Library.
\textsuperscript{149} “Mexico’s Gas Too High- U.S.”, \textit{Los Angeles Times}, 24 January 1979: C12.
\textsuperscript{150} Jimmy Carter,” Interview with the President Remarks and a Question-and-Answer Session with Editors and News Directors of January 26\textsuperscript{th} 1979,” \textit{APP}, \url{http://www.presidency.ucsb.edu/ws/?pid=31313/}, (19 November 2005).
Mexican reporter if the main purpose of his visit was oil, gas, or illegal immigrants, Carter responded:

Well, all of our relationships with Mexico are very complex and complicated. There will be an agenda for which I’m preparing that consists of literally dozens of different subjects, and I think they are very closely interrelated. You can’t isolate just one subject and say this is the most important thing.\(^{151}\)

President Carter continued to publicly downplay the importance of the U.S. buying Mexican oil and natural gas in a press conference two days before his visit stating, “A decision on how much to explore, produce, and sell oil is a decision to be made exclusively by the Mexican people.”\(^{152}\) In a White House briefing, administration officials also downplayed the natural gas issue stating Carter would be discussing only possible long-term imports of potential surpluses of natural gas.\(^{153}\)

Behind the scenes, however, securing a natural gas contract with Mexico was viewed as one of the top issues. The Presidential Review Committee issued its final conclusions on February 6, 1979. The committee stated “the U.S. should seek to develop an extensive set of energy relationships with Mexico.” Carter’s visit was “critical to establishing a more positive political climate for negotiations on gas supply.”\(^{154}\) The suggested strategy for Carter was to emphasize long-term agreements and cooperation, research, and development in all areas of energy, sticking to general items instead of exact terms and pricing. Most


important was that Carter and Lopez Portillo had to agree on the standards before any negotiations between U.S. companies and Pemex would take place and that any agreement had to pass U.S. regulations.

Secretary of State Cyrus Vance outlined the goal of Carter’s visit as “to strengthen relations… and overcome misunderstandings… to advance our growing interests… by building a sense of partnership.” Vance ranked energy second only to immigration in terms of important issues. The talking points for the president stressed expressing regret over what had happened in 1977, support for Mexican autonomy over their natural resources, hopes for a long-term agreement, and for negotiations between Pemex and the U.S. companies to move forward as quickly as possible.

For President Lopez Portillo, oil and natural gas were the essential issues of President Carter’s visit. In his toast to Carter at a luncheon shortly after his arrival, Lopez Portillo asserted

And today in this same world and for the first time in its history, Mexico, because of a nonrenewable resource and the financial self-determination it provides has been given the opportunity of becoming the free, secure, and just nation envisaged by its great leaders of the past, a nation ruled by the principles of a revolution that has evolved into a government and determined to live in peace nurtured by respect for the rights of others, a simple maxim, perhaps, but a valid one.

Both The New York Times and The Washington Post picked up on the harsh tone of Lopez Portillo’s toast to Carter with headlines the following day of “Mexican Chief Gives Carter A

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Warning”157 and “Carter Gets Stiff Warning.”158 The two leaders spent the following morning in talks over a wide range of issues including immigration, energy, trade, and nuclear non-proliferation. Afterward, Carter traveled to the small village of Ixtilco el Grande to observe Mexico’s rural development program for the remainder of the day.159

On his last day in Mexico, President Carter addressed the Mexican Congress. No longer downplaying the issue, Carter said,

For many reasons—some of them historical—the issue of energy has aroused strong emotion. You are justifiably proud of the great natural resources of Mexico. That is why I want to repeat today what I have emphasized in talking to the people of my own country: We understand clearly that the Mexican oil resources are the national patrimony of the Mexican people, to be developed and sold as Mexico sees fit.

We respect that Mexico will produce at a rate suited to its development objectives. As a good customer, we are prepared to pay a fair and just price for the gas and oil you wish to sell.160

The Joint Communique issued by both presidents went a step further, stating the United States would “develop means for expediting sales by Petróleos Mexicanos to purchasing companies” [Mexico would] “re-evaluate the amount of possible surpluses”, [and the two countries] “agreed to examine jointly the prospects of future sales of crude oil and petroleum products from Mexico to the United States.”161 Both the Times and the Post had headlines

the next day announcing Carter’s return to the U.S. and the renewal of discussions between
the two countries over the price of natural gas. “The agreement for the gas negotiations was
the most significant development from Carter’s visit,” the *Washington Post* opined.162
President Lopez Portillo stated that “he was ‘deeply satisfied with the result’ of Carter’s
visit.”163

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162 Edward Walsh, “U.S. and Mexico Agree to Talks on Sale of Gas”, *The Washington Post*,
163 Martin Tolchin, “Carter Ends Mexico Visit; Talks Set on Gas Purchases”, *The New York
Times*, 17 February 1979:1.
CHAPTER SIX: The Beginning of the End

On February 18, 1979, *The New York Times* announced that not only was Mexico ready to negotiate, but it was already producing oil at the rate predicted for 1980.164 That same day *The Washington Post* ran two articles on the prospects of these new round of talks about importing natural gas. While one focused more on the diplomatic success of Carter’s visit165, both noted successful negotiations over natural gas would most likely lead to more oil from Mexico.166 *The Times* ended the month by noting that Secretary of Energy James Schlesinger would have a reduced role in the upcoming negotiations and hopefully an agreement would be ready for Carter and Lopez Portillo’s meeting in the summer.167

By mid-March the hope of a natural gas contract between the two countries was again alive, if on shaky ground. *The Washington Post* reported on March 17 Mexico would sell gas to the United States at a price of $3.15 per thousand cubic feet, a 21 percent increase over the 1977 price.168 However, at a ceremony in Mexico City on March 18, “President Lopez Portillo inaugurated a 780-mile natural gas pipeline today that is to be extended as far as the Texas border, if Mexico and the United States reach an agreement on price.”169 A few weeks later on April 4, the *Times* announced talks between the two countries had resumed,

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referring to it as “the latest chapter of a saga that began in July 1977.” Some significant changes had taken place since 1977: Mexico was willing to export only 800,000 Mcf instead of the original two million and the price of Number 2 fuel oil landed at New York Harbor had increased to $3.25. In his Energy Address to the Nation on April 5, President Carter highlighted the talks, stating, “This week my personal representatives began negotiations in Mexico City which we hope will lead to an agreement on sales of … natural gas …at a price that is fair to both countries.” The Times overzealously interpreted this remark as “hope for a speedy conclusion to negotiations.” By the end of April, Carter was back to showing restraint on the issue, answering a press conference question about the importance of Mexico and the U.S. energy program with:

So, we are now negotiating on a daily basis in a spirit of harmony and cooperation with Mexico for contracts to buy increasing supplies of Mexican gas in the future. So far as I know…these negotiations are on track.

But I’ve got a problem in that the price we pay for Mexican gas will heavily influence the price demanded for domestically produced gas…

So, it’s a complicated problem, and the fact that we didn’t yield immediately to accept the highly favorable price…was strongly condemned in our own county. I was protecting the American consumers, and I think our judgment was right.

President Lopez Portillo’s scheduled September 28-29 visit to Washington, D.C. had negotiations between the two countries begin in earnest in July. Secretary of Energy James

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172 Jimmy Carter,” Energy Address to the Nation: April 5th, 1979,” *APP*, 
174 Jimmy Carter,” Interview with the President Remarks and a Question-and-Answer Session with Members of the United Press International Newspaper Advisory Board: April 27th, 1979,” *APP*, 
Schlesinger confirmed before the Senate Finance Committee on July 12 a contract was expected by the time of Lopez Portillo’s visit.175 Unfortunately, by the start of August, the negotiations had returned to their previous pattern. August 3 had the *Times* and the *Post* reporting the talks had come to a stalemate over price. State Department spokesman Tom Reston denied reports the talks had collapsed.176 Secretary Schlesinger stated they would continue, but there was no guarantee an agreement would be reached.177 On August 19, Mexico’s Foreign Ministry, citing domestic needs that were higher than anticipated, announced it would limit the amount of natural gas sold to the U.S.178 The next day, the *Times* reported the strain between the two countries was beginning to return as the amount of gas had been decided, but the initial price per cubic foot had not.179 A quarrel over compensation for Mexican oil spill in the Gulf of Mexico further exacerbated the situation.180 By the end of the month, Carter had Deputy Secretary of State Warren Christopher leading a mission from the State Department to Mexico City.181 Any price suggested by Christopher would be a substantial increase over the prices of 1977 as OPEC increased the base price of crude oil by twenty-five percent in June. Christopher was charged with a number of outstanding issues to

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discuss with the Mexican Foreign Ministry, with the natural gas sale taking a high priority.\textsuperscript{182} Christopher proposed $3.50, an average of number 2 and number 6 fuel oils while Mexico held fast to $3.75.\textsuperscript{183} Christopher’s visit turned out to be in vain, as again, the U.S. and Mexico had failed to agree upon a price.\textsuperscript{184} This was not only a setback to relations between the two countries, but it put Lopez Portillo’s upcoming visit to Washington, D.C. in doubt.\textsuperscript{185} August ended with the two countries making formal announcements that President Lopez Portillo would still make his upcoming scheduled visit on September 28-29.\textsuperscript{186}

September 1979 saw the final round between Mexico and the United States over the price of natural gas. Mexico declared it would not sell any natural gas to the United States on September 1, after two days of negotiating failed to bring agreement on a price.\textsuperscript{187} However, unlike previous years, the negotiating did not end. On September 14, \textit{The New York Times} noted “there has been substantial progress recently in natural gas negotiations.”\textsuperscript{188} Six days later, \textit{The Washington Post} published, “Mexican and U.S. negotiators are nearing final agreement on a natural gas deal that, if completed in the next few days, could be the highlight

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\textsuperscript{183} Grayson, “U.S.- Mexican Gas Deal,” 601.
\textsuperscript{184} “No Agreement on Mexican Gas”, \textit{The New York Times}, 31 August 1979: D3.
\end{flushright}
of President…Lopez Portillo’s visit.” The following day, on September 21, 1979, President Jimmy Carter released the agreement.

The Governments of Mexico and the United States of America have reached an understanding on a framework for the sale of 300 million cubic feet per day of natural gas by Petróleos Mexicanos, the Mexican State Oil Company, to U.S. purchasers.

In his accompanying remarks, President Carter stated, without naming the actual price, “The price is a fair one for both countries.” The New York Times proclaimed the announcement the following day on the front page, stating the agreed upon price of $3.625 per thousand cubic feet.

With the settlement of the natural gas contract, President Lopez Portillo’s September 28-29 visit to Washington, D.C. passed with little fanfare. Trade, illegal aliens, and the recent oil spill in the Gulf of Mexico took over as the focus of the talks between the two leaders.

In the Joint Press Statement

President Carter and President Lopez Portillo reviewed the status of bilateral consultations in the energy field and expressed their pleasure at the successful

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conclusion of governmental negotiations for the sale of Mexican surplus associated natural gas to the United States.194 As stated in *The Washington Post*, the “talks produced no dramatic results but they were described as improving relations between the two countries.”195

In October, the same six energy companies that had been slated in 1977 to receive natural gas from Mexico signed an agreement with the government of Mexico to import 300 million cubic feet per day at a price of $3.625 per one thousand cubic feet.196 The $3.625 was a compromise between the $3.50 wanted by the U.S. and $3.75 by Mexico. The process quietly continued in November with the six companies submitting their application to the Department of Energy.197 In the last days of December 1979, the Department of Energy announced it had approved the application from the six companies.198 Finally, on January 15, 1980, “Mexican natural gas started flowing into the United States.”199 Unfortunately, the ending was bittersweet for the United States. “The gas price- $3.625 per thousand cubic feet-is the highest in the world for pipeline gas. It is tied to world crude oil prices and hence is expected to go up quarterly.”200

CHAPTER SEVEN: In the End

After almost three years of negotiations, the natural gas contract was settled. In the end, the natural gas contract that the United States and Mexico finally agreed upon was no great piece of international relations, proving to be more of a whimper than a bang. Carter, Lopez Portillo, and numerous staff members of both presidents wasted valuable time, energy, and authority on an energy deal that is unknown to the public thirty years later. It quite frankly seems almost ridiculous that the contract was the source of so much contention between the two countries. There was no great benefit to any of the parties involved, either immediately or as time passed. If anything, the results of the contract represent a lost opportunity between the two countries and the two presidents.

For President Jose Lopez Portillo and Mexico, the end result of the contract brought no great wealth to the country. What could have been a grand opportunity to secure a firmly fixed source of income instead brought only a minor increase in funds. If Mexico had accepted the terms presented in 1977, it would have brought in billions of dollars annually that the country could have used on desperately needed domestic programs. Instead, it held out for a price that was higher than the market could bear. As much as the country and its residents do not care to admit it, Mexico’s financial viability depends on the United States. Mexico already had in place laws that would have prevented the United States from controlling the natural gas industry. The fact that narcotics and immigration continue to be major issues between the two countries highlights the failure of this agreement to improve the Mexican economy.
For Carter, the agreement was neither a victory nor a defeat. By the time the negotiations came to close, Carter’s foreign policy attention was elsewhere. His goals had drastically changed as the Shah of Iran was overthrown and the Soviet Union invaded Afghanistan. If anything, the natural gas contract was an easy way to return the United States and Mexico to the good relations the two had known prior to the late 1960s by coming to an agreement on this one issue. With the conclusion of the natural gas contract negotiations, Lopez Portillo’s main problem with the United States disappeared. Carter seemed to be trying to set the stage for fruitful negotiations between the United States and Mexico over Mexico’s vast oil reserves. For those who care to view this as a failure for Carter, they are correct in that the United States ended up receiving a much smaller amount of natural gas than anticipated. For those who view this as a success, it was the first large-scale binding import/export agreement over a natural resource between two countries.

For the United States, the agreement did not have great impact on U.S. natural gas supplies and did not prevent subsequent shortages. The Alaskan pipeline was still completed, and the United States continued to import natural gas from Canada. The daily amount imported from Mexico was not large enough to cause any restructuring of the natural gas industry or any federal legislation. In the energy picture of the United States, the amount from Mexico was a mere pittance, a token quantity to show that Mexico was indeed supplying natural gas to the United States.

If there was any winner in this situation, it was Carter’s Department of Energy. The natural gas shortage of 1977 helped bring about the first federal legislation on the resource in forty-three years and helped legitimize the department. The six energy companies were
forced to have the DOE involved in any import pricing. The contract negotiations helped bring status and recognition to the DOE and its secretary. With Schlesinger’s refusal to tie natural gas prices to a fuel oil, any OPEC price increase would not affect prices of natural gas elsewhere.

Most of all, the natural gas contract negotiations ended up as a lost opportunity for all: Carter, Lopez Portillo, the United States, and Mexico. The United States and Mexico lost the chance to set a worldwide standard for importing/exporting natural gas on a large scale. The United States missed the opportunity to receive a fairly sizable amount of natural gas on a daily basis from a secure source for a low price. Carter lost the chance to demonstrate his skills in foreign relations by getting caught up in a very minor international squabble. Lopez Portillo lost the opportunity to raise the status of Mexico in the international energy arena.

Thirty years later, the natural gas contract 1979 between the United States and Mexico is a mere footnote in history, barely worth the paper it is printed on.
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