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Mexico has suspended its decision to eliminate a 4% tariff on imports of US natural gas following the decision by US independent oil producers to file an anti-dumping complaint against oil imports from Mexico and three other countries. The independent US producers, who formed a coalition called Save Domestic Oil Inc. (SDO), filed the complaint with the US International Trade Commission (ITC), arguing that Mexico, Venezuela, Saudi Arabia, and Iraq were exporting oil to the US at below-market prices. "Imports from these countries are sold at less than fair value, are subsidized by their governments, and are injuring US oil producers," the Oklahoma-based group said in a statement.

Imports account for 52% of US oil supplies, according to the US Department of Energy. "We believe this action is necessary to ensure our nation's long-term energy security by maintaining a vital domestic-oil industry for the remaining 430,000 US oil workers," said SDO chairman Harold Hamm. The group represents several thousand independent oil producers in Oklahoma, Texas, Kansas, Louisiana, California, Colorado, Illinois, Indiana, Kentucky, and New Mexico.

In its complaint to the ITC, which is a division of the Commerce Department, the group asked the US government to impose countervailing duties of 33.4% on oil imports from Mexico. SDO requested duties of 84.4% for Saudi Arabia, 102.6% for Iraq, and 177.5% for Venezuela. The recent glut of oil on the world market caused global prices to plummet in recent years. However, prices have undergone a moderate recovery in recent months because of a concerted effort by oil producers to reduce supplies.

Mexico's average oil-export prices have rebounded to US$16 per barrel as of early July, almost twice the US$8.26 per barrel recorded in February. Mexican Energy Secretary Luis Tellez Kuenzler raised concerns that the anti-dumping action could threaten the fragile coalition of oil producers. Ironically, three countries named in the complaint Mexico, Venezuela, and Saudi Arabia led efforts last year and this year to reduce global oil supplies to help boost prices (see SourceMex, 1998-03-25, 1998-06-10, 1999-03-24). Those same three countries have joined forces to fight any US restrictions on oil imports. If the US government accepts the complaint, the three countries have threatened to take the matter before the World Trade Organization (WTO).

Energy Secretary says dumping complaint unfounded

Tellez disputed the allegations that state-run oil company PEMEX is dumping oil on the US market. He said PEMEX determines its export price using a formula based on certain benchmark prices. Many oil-exporting countries use quotes from the US West Texas Intermediate, Europe's North Sea Brent, and Asia's Twobay markets to determine their selling prices.

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"The Mexican government does not subsidize PEMEX," said Tellez. "On the contrary, PEMEX brings in about 30% of the revenues of the federal treasury." In a press conference before the anti-dumping complaint was filed, Tellez emphasized that the SDO complaint had no merit. "We are sure they won't win an anti-dumping case because there is no dumping, there are no subsidies, and we are sure that, looking at this through legal channels, we will win," Tellez told reporters.

Still, the threat of an action has raised concerns in Mexico, particularly since the complaint coincides with the beginning of campaigns for the US presidential and congressional elections in 2000. Any US restrictions on imports of Mexican crude could have a profound impact on the US-Mexico balance of trade, since 77% of PEMEX's crude-oil exports are shipped to the US market. Mexican exports to the US have averaged about 1.318 million barrels per day this year. A recent study produced by the Centro de Estudios Economicos del Sector Privado (CEESP) found that US restrictions, if imposed immediately, could cost Mexico about US$6 billion in revenues.

US Energy Secretary Bill Richardson remained noncommittal on the anti-dumping complaint, although he called the SDO allegation "a serious charge, with potentially serious consequences." Richardson expressed his willingness to meet with the domestic producers and representatives of the oil- exporting countries to negotiate a solution. "What we need to do now is bring all the parties together to see whether there is a way to resolve the concerns raised by the petition," Richardson said in a statement.

Natural-gas duty was to be lifted on July 1

The SDO anti-dumping complaint coincided with the scheduled elimination of a Mexican tariff on US natural gas, effective July 1. However, the Mexican government decided to leave the tariff in place. The elimination of the tariff was negotiated under the North American Free Trade Agreement (NAFTA). However, the timetable established under NAFTA does not require Mexico to open its natural-gas market until 2003.

The government chose to lift the restrictions early to compensate for a potential shortage in northern areas (see SourceMex, 1999-05-26). Tellez said the Mexican government will consider removing the tariff once the anti-dumping complaint is resolved. "We won't eliminate the tariff until the case has been decided in Mexico's favor," Tellez said. The administration of President Ernesto Zedillo, meanwhile, has assembled a legal team in the US to fight the dumping charges. In an interview with the daily business newspaper El Economista, Trade Secretary Herminio Blanco said the legal team will base its defense on clauses in NAFTA and the bylaws of the World Trade Organization (WTO). "We are still in the initial stages of this case," said Blanco, who said the Commerce Department has 20 days to determine whether to accept the complaint.

But energy-industry analyst Arturo Borja Tamayo of the Centro de Investigation y Docencia Economica (CIDE) said the government overreacted to the complaint, since the US government has yet to take any action. "As a result, we'll probably experience an increase in the price of gas in Mexico," said Borja. Similarly, analyst George Baker, director of Mexico Energy Intelligence, said the delay in eliminating the tariff will set back construction of natural-gas pipelines that were planned along the US-Mexico border. In addition, he said, several northern-based companies, including the state-run Comision Federal de Electricidad (CFE), will continue to pay high prices for gas imported

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