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The Easy Alternative to Fuel-Economy Standards

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The Obama administration recently floated a proposal to raise the Corporate Average Fuel Efficiency (CAFE) standard to 56.2 miles per gallon by 2025. The higher CAFE standard would, the thinking goes, reduce domestic consumption and thus reduce our reliance on foreign oil. If only it were that simple. A higher CAFE standard may help our balance of payments a little, but we will remain hostage to the OPEC cartel's control over the availability and price of oil throughout the world.

Transportation is fundamental to the functioning of every economy. Without it goods don't move, stores become empty, jobs are lost and economies melt down. The reality is that roughly 97% of all transportation in the U.S. still runs on fuels derived from oil. Oil has become a strategic commodity—a product which if disrupted or sold at an extravagant price will cause the collapse of our own and virtually every other economy. Yet we have nothing close to a national energy policy that will help wean us off our dependency on foreign oil.

The 12 members of OPEC control roughly 78% of the world's oil reserves yet account for just a third of daily global production. Still, controlling that amount of production enables them to set the global price. How? If nonmembers produce more, OPEC simply produces less. And when governments introduce policies like higher CAFE standards designed to decrease consumption, OPEC members again scale back production to maintain the price of their choice. In short, we can't conserve our way out of this dilemma.

The only lasting way to overcome a monopoly—such as oil enjoys in the global transportation sector—is to introduce competition. Fortunately, there is good news on that front. Over the past two decades, a variety of alternative fuels have become economically viable without subsidies. These include methanol made from natural gas, coal, or biomass; sugarcane ethanol; biodiesel and electricity to drive plug-in hybrid or electric cars. These technologies are proven and scalable, and the liquid fuels operate smoothly in conventional vehicles after about a $100 per car modification on the assembly line. What is needed is to ramp up their production so that they are available when you go to the pump.

Thirty years ago, the government of Brazil decided that it didn't want its people held hostage to OPEC, and it embarked on a program to develop sugar-ethanol as an alternative fuel. Today, 90% of new cars produced in Brazil are flex-fuel—able to burn gasoline or alcohol or any combination of the two. Most of the flex-fuel cars sold there are produced by Ford, Chrysler and GM. And today, Brazil is self-sufficient with a choice of fuels. Indeed, Brazil exports both oil and ethanol.

Government mandates were the key to Brazil's success in opening its market to fuel competition. Specifically, a high requirement on minimum blend levels in gasoline led auto manufacturers to ensure that most new cars in Brazil were flex-fuel. Mandates are mostly seen in America as government telling the market what is best. And yet, few Americans would challenge that many sensible innovations have resulted from government mandates: One thinks of seat belts and safety standards for countless consumer products. The key is to carefully circumscribe the mandate.

And, of course, one ought to acknowledge that neglecting to require auto companies to open their vehicles to fuel competition is to mandate a continued monopoly by oil.

Thankfully, our lawmakers are not standing still on this front. In May, a bipartisan bill was introduced in the House that aims "to ensure that new vehicles enable fuel competition so as to reduce the strategic importance of oil to the United States." The Open Fuel Standard Act of 2011 would mandate that a percentage of vehicles manufactured in the U.S.—starting at 50% by 2014—be equipped to use some type of alternative fuel in addition to or instead of an oil-based fuel. That percentage would then rise to 80% by 2016 and 95% by 2017.

As in Brazil, a government mandate is crucial to bringing new investment into methanol, cellulosic ethanol, and biodiesel production. Without a mandate, it's difficult if not impossible to convince the majority of serious investors that alternative fuels are going to be entering a viable market.

Don't misunderstand, I am by no means anti-oil. We need oil and will for generations to come. Our country is blessed with huge oil reserves that ought to be developed for the benefit of all. But we need to make sure it competes in the marketplace like any other product, thus neutralizing it as a strategic commodity. Ever-higher CAFE standards won't accomplish that. Passing the Open Fuel Standard Act of 2011 will.

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