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The Flexible Fuel Answer to OPEC

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Last week, President Barack Obama delivered a highly anticipated speech on our country's energy future. His implicit message? "No, we can't."

For starters, the president wrongly defined our oil problem. Like every president who has addressed the issue since Richard Nixon, Mr. Obama focused on the source and level of our oil imports. But these are not the keys to overcoming the security and economic vulnerabilities that oil causes.

Oil is a fungible commodity with a global price. Even if the U.S. did not import a drop of oil—or if all, instead of just most, of our imports came from Canada and Mexico—we'd still be vulnerable to the vagaries of the oil market and price manipulation by OPEC. In 2008, when the world price of oil rose to $147 a barrel, truckers in Britain struck against the huge resulting diesel price. The price skyrocketed even though the United Kingdom was then producing virtually all its own oil.

The Obama administration's fixation on our imports helps drive conservatives to a drill-baby-drill strategy and liberals to a conserve-baby-conserve one. Both approaches would reduce our trade deficit. Conservation would reduce emissions and stretch a limited resource. But that is about all these strategies would accomplish.

The cartel that dominates the global oil market sits on 78% of the world's conventional oil reserves. The reason it accounts for only about a third of world oil production is because it is a conspiracy in restraint of trade. When non-OPEC countries drill more, OPEC simply drills less and drives prices back up. If demand is reduced through a one-time improvement in efficiency, OPEC again drills less and prices zip back up.

Oil is a presidential concern because its virtual monopoly over transportation fuel makes it a strategic commodity. (It's not because of electricity: Only 1% of U.S. oil demand is due to electricity generation, and only 1% of our electricity is generated from oil.)

A few centuries ago, salt held similar strategic importance because it was the only way to preserve a major share of food. Control of salt conferred the same geopolitical leverage—and thus the ability to wreak economic havoc—that control of oil does today. Indeed, the 18th century imperial navies battled over access to salt mines in the Caribbean. The advent of a cheaper and better means of food preservation—refrigeration—rapidly turned salt into just a regular commodity.

To do the same to oil, we must break its stranglehold on the global transportation fuel market by ensuring that new cars allow fuel competition. One very good way to accomplish this is for Congress to adopt the Open Fuel Standard Act, soon to be reintroduced with bipartisan support.

An Open Fuel Standard would require new cars to include a $100 tweak that would allow them to run on a variety of liquid fuels in addition to gasoline. Such fuels would include methanol, which is easily made from natural gas and biomass (and, less cleanly, from coal). Enabling vehicles to use natural gas, whether directly or via liquid fuels that are made from it, allows consumers to benefit from the very large cost advantage that natural gas holds today over oil. As we move forward, vehicles like plug-in hybrids that provide 20-40 miles of electric range before shifting to a flexible liquid fuel tank can provide a highly competitive platform. By stretching gasoline with other liquid fuels and electricity, the car can use one gallon of gasoline for every 500 miles of driving.

To outmaneuver OPEC, the market needs to be able to react dynamically. That means giving purchasers of fuel the ability to choose a different fuel at the pump if it's cheaper that day than gasoline or diesel. Brazilians already have this option: During the oil price spike in 2008, with 90% of their new cars fuel flexible, they bought more alcohol fuel than gasoline.

President Obama said in his speech that "every few years, gas prices go up; politicians pull out the same old political playbook, and then nothing changes. . . . I think the American people are tired of that." Yes, we are. So how about using competition to break through this stalemate?

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