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Don't Give Up on Energy Independence

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This week in Congress, efforts are underway to roll back goals enacted just last year to encourage the development of biofuels. This could damage – perhaps irretrievably – the substantial progress we've made toward relieving the threat posed by our reliance on foreign oil.

Our country is in the midst of a vigorous, healthy argument over whether the apparent appeal of biofuels as a means of reducing our reliance on foreign oil hasn't had the unintended effect of driving an increase in food prices throughout the world. We must base this debate on established facts, and emerge with renewed commitment to measures to relieve a historic threat to our national security.

Let's focus first on what is true in the food-versus-fuel argument.

Three factors have driven the increase in the price of food. The first is greater foreign demand. China and India are importing record amounts of coarse grains to feed growing populations and livestock. In the U.S., however, even after accounting for corn devoted to ethanol production, we produced 17% more corn food product and exported 23% more food product in 2007 than 2006.

The second factor is reduced supply. Serious drought conditions among traditional suppliers – especially Australia – have reduced supplies in the global marketplace and stimulated speculation in futures markets.

The third factor is energy costs. By far the greatest contributor to higher food prices has been the run-up in the price of oil, which impacts every stage of food production.

The same sustained growth in China's and India's economies that is contributing to the rise of food prices is matched by a corresponding increased demand for oil, which promises to keep oil prices high for the foreseeable future. Given the tightness of supply – with very little excess production capacity anywhere in the world – if oil flows from the Persian Gulf were disrupted (as al Qaeda has promised, and which could easily happen), we would see oil at more than \$200 per barrel overnight. And it would stay at that level until the damage is repaired – a period of up to a year – during which time the global economy would likely fall into deep depression.

Fortunately, we have the means to relieve this strategic vulnerability. There are four policy measures to alleviate this threat and in the process lower the global price of oil and dramatically reduce our emissions of greenhouse gases:

- Accelerate the introduction of second-generation biofuels (e.g. cellulosic ethanol and methanol) which don't rely on any food crop as feedstock, and should not require any government subsidy.
- Establish an Open Fuel Standard. That is, require that any automobile sold in the U.S. be a flexible fuel vehicle capable of burning gasoline, methanol, ethanol or any combination of the three – a feature that costs just \$100 per vehicle.
- Accelerate the production of plug-in hybrid-electric cars and trucks.
- Introduce the use of lighter, stronger carbon composite materials, as Boeing is doing in the new 787 Dreamliner aircraft, into the production of cars and trucks. A Pentagon study a few years ago concluded that this step alone could reduce our oil imports by 48%.

The most important of these measures is the enactment of an Open Fuel Standard, so that the consumer has a choice at the fuel pump. Unfortunately, without a predictable market, such as would be provided by mandatory flexible-fuel cars and trucks, there is a strong disincentive among investors to risk the capital needed for second-generation alternative fuels like cellulosic ethanol to take off. But without such a mandate, we are keeping ourselves tied exclusively to oil, with all the risks that involves.

Some say that these mandates are contrary to free-market principles. But one could say the same thing about seat belts, air-bags and even the FM radios mandated during the Cold War to assure the government's ability to broadcast nuclear alerts.

No one argues seriously that these things have not been in our interest. And just imagine how valuable it would be to reduce the \$460 billion we will spend on foreign oil this year, or the threat to our economy that its disruption would represent.

We must not let this national debate be distorted by charges that one is either pro- or anti-oil. I believe strongly that Western oil companies ought to be supported in the production of as much oil as they can, for as long as they can. Reducing our reliance on foreign oil is, however, an urgent national security priority.

Mr. McFarlane served as President Reagan's national security adviser.