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Local Politics and Market Forces: A case study of ethanol development in NYS*

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What is the Issue?

In May of 2008 an out-of-state corporation specializing in ethanol production announced that it was backing out of its plan to build a plant in Upstate New York, a decision that came as both a surprise and disappointment for the economically depressed region. The project had begun in early 2007 when the company linked up with a group of local farmers trying to site a plant in their area. A previously unsuccessful attempt had left these local farmers in need of financial backing. The out-of-state corporation was, in turn, seeking opportunities to expand its operation. Collaboration between the two parties promised to be mutually beneficial; the arrangement gave local entrepreneurs access to technological and financial resources, and gave the out-of-state corporation local knowledge and connections to help them expand their business. The project promised to create jobs and establish a new market for local corn farmers. Further, ethanol is a source of bio-energy, which appeals to growing citizen energy and environmental concerns throughout the state.

Why did this seemingly 'ideal' ethanol development project fail to materialize? We explore answers to this and other questions, including: What is the relative importance of market factors and local permitting processes in developing bio-energy schemes? What are the advantages and disadvantages of locally controlled permitting for this type of development in upstate New York?

How was the study conducted?

Between August 2007 and August 2008, we conducted semi-structured interviews with key informants involved with the ethanol project site selection. We interviewed executives of the out-of-state company, officials at the local development agency, officials at the local planning board and members of the planning board in the affected town. In addition, we interviewed local residents that opposed the project as well as state-level development officers.

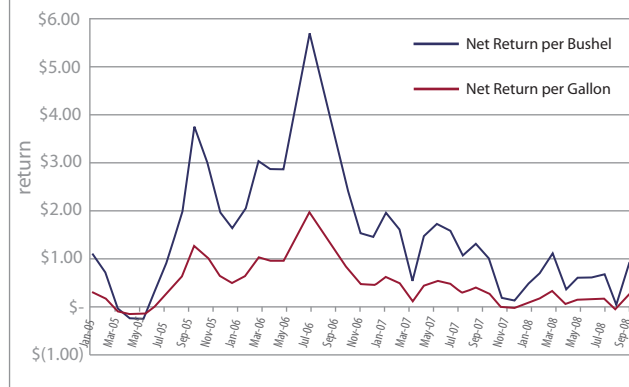
During the interviews, we asked respondents to recount the sequence of events from their first encounter with the proposal up to the project's abandonment, and we asked interviewees why they thought the development project was unsuccessful. We also collected and analyzed documents pertaining to the ethanol development project from institutional websites, published materials and news articles.

General Findings

Our findings show that a mixture of local, market, and political conditions combined to make it difficult to site the proposed ethanol plant. Specifically, the proposed ethanol project failed for three key reasons. First, as a result of past events, the local population distrusted town officials in charge of development. The constituent's misgivings ultimately led to organized resistance in the form of a lawsuit as well as a widespread anti-ethanol development campaign. Second, New York's emphasis on local control amplified the impact of the existing distrust. Due to the way NYS's development process is structured, local officials, who many residents

suspected of being corrupt, were in charge of evaluating and permitting the project. This led to increased resistance to the project. Furthermore, the state's development process stipulates that public approval and local input are important and must be sought at key moments during the permitting process, affording those who objected to the project numerous occasions to stall the permitting process. Third, the drop in ethanol profitability, which was caused by a combination of dropping ethanol prices and rising production costs, rendered the project unviable (see Figure 1).

Figure 1: Net Returns of Ethanol Production (profits) per Bushel and per Gallon, January 2005 - July 2008



Source: Iowa Ethanol Report

Conclusion: Lessons Learned

This case study demonstrates that economic development is often difficult to achieve because favorable market conditions and political support must coincide for a project to move ahead. Although few development processes are alike, our case study identifies certain factors that economic developers might consider when working on a local economic development effort.

More emphasis is needed on developing the capacity of local officials to facilitate local development. Local leaders and officials must be able to elaborate and implement development strategies and to take full advantage of state and federal resources and opportunities. Leaders and public officials come from a variety of backgrounds and may not have had sufficient training to deal with complex and changing circumstances. Leaders must competently manage the development process and instill the trust of their constituents. Only then can they effectively respond to emerging domestic and global market opportunities for community and economic development. ▲

* Please visit the CaRDI website for a full list of references. In addition, a longer report on this subject will be available in early 2009 under "CaRDI Reports".