

NEWS

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Where Credit Is Due

Could 'carbon trading' help finance Louisiana wetlands restoration?

by [David Winkler-Schmit](#)

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Workers plant trees in land adjacent to the Tensas River Wildlife Refuge in Mississippi, re-establishing a hardwood forest and reducing Entergy's carbon footprint. Such carbon-credit projects may finance Louisiana coastal restoration.

Many scientists agree that global warming, with its rising sea levels and stronger hurricanes, portends a dangerous future for a city like New Orleans, whose back door is the ocean. So how is it that carbon, a cause of global warming, could become a key factor in saving the wetlands that protect us from storm surges and coastal erosion?

In 2003, Entergy Services Inc., the parent company of Entergy New Orleans, entered into a partnership with the conservationist group Trust for Public Land (TPL) and the U.S. Fish and Wildlife Service (USFWS). With Entergy's assistance and some federal funding, TPL bought 1,600 acres of land adjacent to the Tensas River Wildlife Refuge in Tallulah, Miss., then planted trees on it to re-establish a hardwood forest. After the planting, TPL donated the land to USFWS and will pay an annual fee to maintain the forest — all thanks in part to the generosity of Entergy.

So what does Entergy get out of the deal? Carbon credits.

Entergy and other U.S. companies are investing in projects that will offset their carbon footprints, or emissions — and that could help Louisiana restore its coastal wetlands, which are disappearing at a rate of 25 to 40 square miles per year.

Carbon trading, also called a cap-and-trade scheme, essentially places limits on businesses' carbon emissions, which contribute to the greenhouse effect and global warming. Instead of governments penalizing and fining corporations that exceed limits, however, companies can purchase credits from a carbon-credit market and offset their overall carbon discharge.

Lois Pendergrass, a local investment management consultant, sees this emerging market as a potential windfall for Louisiana and coastal restoration. In Pendergrass' view, local communities and the state shouldn't wait for federal funding for coastal restoration projects — they could take proposed projects and get them funded through private dollars, making the need for coastal restoration an asset instead of a liability.

"We can get a revenue stream that will benefit our own restoration without having to rely on the federal government grants, which are slow and come in dribs and drabs," Pendergrass says.

Before revenue streams can start flowing, Pendergrass needs some help from state government. While some states like Connecticut, Maryland, Maine, Massachusetts, Rhode Island and Vermont are already selling their credits, Louisiana has yet to get in the game. That should change beginning next year. Gov. Bobby Jindal has dedicated up to \$2 million in this year's budget for a carbon-credits program, which should be up and running sometime in 2009.

While the state is trying to make it easier for communities to take control of their own coastal restoration destinies, the federal government will have to take a stance on carbon emissions before the carbon-credit market can really take off and any of this can become a reality. The question remains: Can carbon credits pay for wetlands restoration that's estimated to cost at least \$14 billion?

Pendergrass, who works for Equitas Capital Advisors LLC, which provides consulting services to clients whose assets are more than \$4.1 billion, thinks the next bull market will be green. She first learned about the possibilities of carbon credits when a Louisiana community (Pendergrass says the community wishes to remain anonymous for now) approached her. Community representatives told her an equity firm had offered to pay for a coastal restoration project, provided the firm would get the carbon credits. The community balked at the offer because

members were uncertain it was a good deal, then they turned to Pendergrass.

It's no wonder the community felt uneasy: There's no set price for carbon in the United States. Carbon credits, also known as offsets, are produced in a variety of ways, but the net result is less carbon gas being released into the atmosphere. So, for instance, if a company wanted to lower its carbon emissions, it might offset its total emissions by buying a coal-burning factory and closing it (thus reducing the amount of carbon the factory produced), containing or sequestering carbon by planting a forest (trees absorb carbon dioxide through photosynthesis), or possibly restoring wetlands.

Though carbon caps aren't currently mandated in the United States, companies are investing in carbon-credit projects because they feel mandatory levels will be a reality — President-elect Barack Obama is in favor of carbon limits. With a nod toward a future it feels is rapidly approaching, Entergy Services Inc. helped pay for replanting the forest along the Tensas River as well as other carbon-containing projects.

Paying for coastal restoration through carbon credits hasn't been done yet, so Pendergrass is trying to break new ground. In the past two years, she has been assembling land titles for the project, making sure the land can be sold when the time comes. Now, she needs to figure out how much it's worth in terms of carbon credits, so she's working with scientists from Louisiana State University to determine how much carbon would be captured, how much carbon would be captured per year and if the project should be sold all at once or at an annual price.

All of this speculation costs money.

"We need to have either the state government, or private enterprise — there's a fair amount of capital needed to get this started in terms of metrics and valuation, scientists going out there and all of that," Pendergrass says.

Garret Graves, director of the Governor's Office on Coastal Activities, says his office is developing a program to more easily facilitate coastal restoration projects funded by selling carbon credits. For this to occur, his staff has to formulate a way to estimate the amount of carbon that can be captured in coastal restoration projects and how those credits can be sold. Currently, carbon credits can be sold through private equity firms, directly negotiating with interested companies or putting potential projects on a carbon-credit exchange.

In Europe, carbon emissions caps are mandatory, so companies must comply, but in the United States, carbon caps are strictly voluntary. There are U.S. markets for carbon credits, such as the Chicago Climate Exchange and the American Carbon Registry, but without mandatory limits or

standards for establishing the value of carbon, prices fluctuate from \$1.50 a ton to \$7 a ton. European prices are much higher and are currently set at about 15 Euros, or \$18, a ton.

With so much fluctuation in the U.S. market, it's difficult to determine whether coastal restoration projects are a good investment for companies looking to offset their carbon emissions. Brent Dorsey, director of Entergy's Corporate Environmental Programs, gives a positive, but qualified answer.

"If we could figure out a way to do carbon sequestration and coastal restoration, yes," says Dorsey.

Part of the answer lies in the type of coastal restoration project, says Wiley Barbour, executive director of Environmental Resources Trust, a nonprofit organization that provides technical assistance for carbon-credit projects. Barbour says that just replacing marsh grass isn't enough, and that trees, which are made up of 50 percent carbon, are a great way to capture carbon. There is much more carbon per acre in a swampy area where trees are growing, Barbour explains. Unfortunately, planting trees introduces another complication.

"The problem with forest projects is they take a long time to deliver the benefit," Barbour says.

Don Morrow from the Trust for Public Lands and the brains behind the Tensas River reforestation project thinks paying for coastal restoration through carbon credits is possible. By the time Morrow's project is completed in the next two years, TPL and its partners will have regrown an 11,000-acre forest. He says Hurricane Katrina proved just how valuable trees are to protecting coastal areas.

"There are opportunities along the coastal area to re-establish coastal hardwood and cypress forests as a way to provide protection to coastal areas from the impacts of hurricanes," Morrow says.

Dorsey feels whether carbon credits can pay for coastal restoration ultimately comes down to the price of carbon. Entergy, which owns a surplus of carbon credits, has been lobbying for the federal government to set mandatory levels for carbon emissions, and feels the feds should set the mandatory price at \$50 per ton.

"It has to be high enough to send the appropriate price signal to carbon sequestration innovation, but not high enough so that it's not politically feasible," Dorsey says.

Graves disagrees with Dorsey and thinks carbon caps should remain strictly voluntary. He says

it's not in the best interest of the state, which has the 22nd highest population, but is the 10th highest producer of carbon emissions. The cost of federally mandated compliance could reach into trillions of dollars, and Graves speculates that trying to force emission regulation could send businesses to countries where there are no restrictions. Instead, he'd like voluntary carbon standards set with companies getting tax credits for going below their emission level.

Regardless of what the federal government does — at a recent climate change conference in California, Obama (in taped remarks) said he intends to carry through with cap-and-trade legislation — Graves thinks Louisiana needs to be prepared.

"The worst thing for us to do would be to wait in the future for some of these programs to start getting established," Graves says. "... [We should be] ahead of the game where we can take advantage of these resources immediately."

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