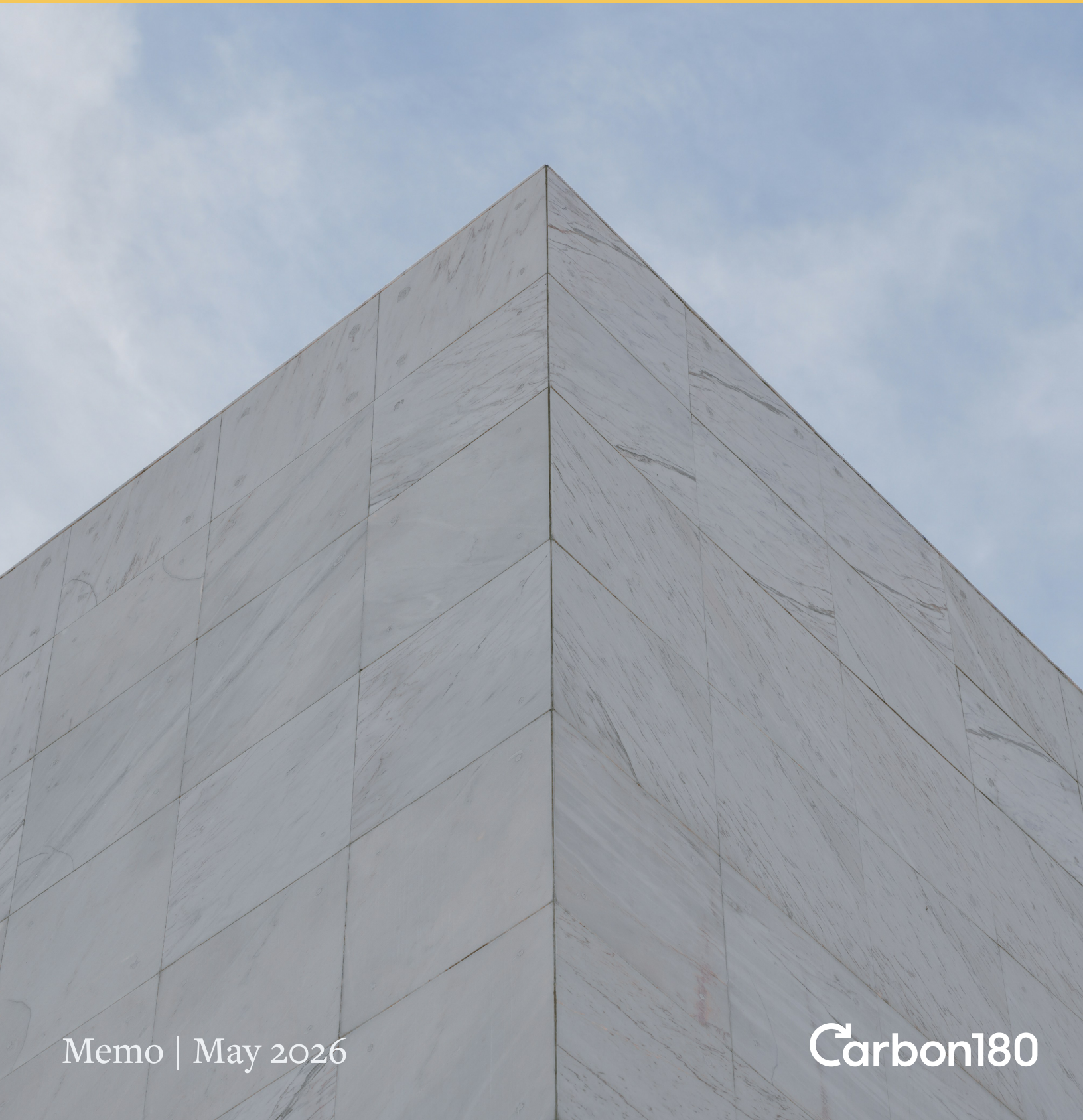
The Demand Triangle:

Policies to Grow Carbon Dioxide Removal



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Carbon180

ABOUT CARBON180

Carbon180 is a climate NGO with a vision to remove legacy carbon emissions from the atmosphere and create a livable climate in which current and future generations can thrive. Based in Washington, DC, we design and champion equitable, science-based policies that bring carbon removal solutions to gigaton scale.

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Introduction

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Unlocking Demand for Carbon Dioxide Removal

Scientists agree on what climate stability requires — cut nearly all greenhouse gas emissions by midcentury, and remove more than a gigaton of carbon dioxide from the atmosphere every year to handle what's left. Yet, there is no consensus on how to accomplish that goal. Reaching such an ambitious but necessary scale will require policymakers across the world to invest now in a range of fit-for-purpose carbon dioxide removal (CDR) solutions that, taken together, will allow us to meet our global net-zero emissions goals.

The US currently leads the CDR field, supported by federal investment in research, development, and demonstration (RD&D) and early deployment programs, like the Direct Air Capture (DAC) Hubs and CDR Purchase Pilot Prize programs.[1] Because CDR is a public good rather than a traditional market good, industry growth will depend on public policy that bolsters demand. Without sufficient and enduring demand, developers cannot finance their projects and ultimately expand operations to lower the marginal cost per ton of removal.

Carbon180 proposes a three-part demand framework we call *The Demand Triangle*.

First, expanding public procurement of CDR is essential to industry stability and growth in the near term. This means the federal government is buying carbon removal directly.

Second, shifting the cost burden for CDR purchases from taxpayers to emitters broadens the field of purchasers and provides market certainty. Under this approach, industrial companies buy carbon removal to compensate for their emissions.

And third, implementing a carbon border adjustment mechanism (CBAM) — a fee on imported goods based on the carbon emitted during their production — protects domestic industries from unfair competition from foreign companies not subject to the same type of environmental regulation faced in the US. Establishing such a market structure for CDR would bolster the competitive advantage of domestic developers and make the US the premier jurisdiction for industry growth.

This memo walks through *how* each component works, the trade-offs involved, and where the design choices matter most. We hope this can serve as a template for discussion for those in the CDR and broader climate policy communities seeking to decarbonize the US economy and scale demand for CDR to levels commensurate with scientific recommendations.

1. *Creating an Offtake Guarantee for CDR through Federal Procurement*

Federal procurement accomplishes three things at once, as we laid out in *The Procurement Toolbox: Leveraging Federal Purchasing Power to Advance High-Quality Carbon Removal*. It sets the bar for establishing high standards for just, equitable, and highly accountable CDR, crowding in private sector buyers to diversify the pool of demand, and creating market certainty that allows developers to raise capital and ultimately deploy a range of CDR solutions.[2]

The US government became the first national government body to purchase CDR in 2024, allocating $35 million at the Department of Energy (DOE) for the CDR Purchase Pilot Prize. The program received proposals from developers across the country and selected 24 semi-finalists from across four major pathways: direct air capture (DAC), biomass carbon removal and storage (BiCRS), enhanced mineralization, and marine carbon dioxide removal (mCDR). The program set new industry expectations with regard to community engagement by requiring measurement, monitoring, reporting, and verification (MMRV) and community benefit plans that engender industry trust and begin to build a social license to operate.

Federal policy uncertainty has interrupted the program's progression to future phases. As of today, only $1.2 million has gone to awardees. Congress allocated an additional $20 million via annual appropriations in each FY2024 and FY2025, and $45 million in FY2026. It is unclear whether the current leadership at DOE intends to administer these funds as Congress intended.

Congress has signaled the need for an expanded CDR purchasing program with explicit instructions to ensure appropriated money is spent as intended and supports a diverse portfolio of CDR technologies. A bipartisan group of senators,

led by Sen. Susan Collins (R-ME), introduced the Carbon Removal and Emissions Storage Technologies (CREST) Act in the previous Congress to expand CDR RD&D and establish a purchasing program that procures CDR across pathways, providing a technology-neutral demand pull that fosters industry growth and innovation. Reps. Tonko and Peters, and Sens. Coons and Whitehouse introduced the Carbon Dioxide Leadership Act (CDRLA) to similarly establish a procurement program at DOE, with even more ambitious cost and volume targets.

Both bills recognize the unique role the federal government can play in building a responsible carbon removal industry for the benefit of US companies, their workers, and the communities in which they operate. Both also prescribe specific purchasing guidelines for DOE to ensure the industry grows effectively and responsibly. While the Purchase Pilot Prize was groundbreaking in its ambition, it provided an amount of administrative latitude that has allowed the current Administration to slow its implementation. New legislation with clear purchasing guidelines authorized by Congress will provide certainty among developers and incentivize them to adopt a set of best practices.

Despite the importance of this role, the US is unlikely to have the political or financial capacity to procure CDR at the scale we need. And although a procurement program would serve to set a demand floor as well as crowd in private sector buyers, current market trends suggest that the pool would be heavily concentrated in high-margin industries with robust commitments to sustainability. Microsoft, which recently announced its intention to scale back CDR purchasing, accounted for 93% of total carbon removal purchases in 2025, and more than 80% of all tech-based purchases to date.[3,4] Developers need to diversify their customer base to protect against sectoral downturns that could jeopardize demand and therefore imperil their entire industry. In order to scale the volume of purchases beyond what is feasible with voluntary commitments and provide the type of market certainty required to accelerate CDR financing, we need a regulatory policy that brings new buyers to the table.

2. Shifting the cost burden for CDR purchases to industrial emitters

While public procurement is necessary in the near term to solidify a source of demand for CDR and embed effective and responsible practices with regard to permanent storage and community engagement, we need a larger, broader set of buyers to move closer to our gigaton-plus goal. The voluntary market is too small, concentrated, and uncertain to buoy CDR demand indefinitely. Establishing a regulatory mechanism wherein private sector companies pay for CDR to compensate for their emissions broadens the scope of potential buyers.[5,6]

Such a compliance mechanism is not a new idea and is often politically impractical. Effectively putting a price on carbon raises the costs of fossil fuels used for basic necessities like driving or home heating. Opponents of carbon taxes have often, though not exclusively, succeeded in making the case that increasing these costs is not worth the environmental benefit of incentivizing the transition away from fossil fuels.

For instance, in one of his first moves in office, recently elected Canadian Prime Minister Mark Carney signed a directive eliminating the country's consumer carbon tax. Signed into law in 2019, the "fuel charge" had become a political liability for the Canadian Liberal Party by increasing the costs of commonly purchased consumer goods during an extended bout of worldwide inflation. Instructively, Carney has not eliminated the second pillar of Canada's GHG regulatory framework: the Output-Based Pricing System. This policy, also known as the large-emitter trading system (LETS), levies a tax on industrial emitters, including cement, oil and gas, iron and steel, mining, and chemicals, per ton of carbon emitted above a specified threshold. Incentivizing producers of industrial materials to curb their emissions projects has been the most effective policy in mitigating national emissions without meaningfully increasing the cost of goods borne by consumers,

according to a study by the Canadian Climate Institute.[7]

The US has a similar industrial base to Canada, but lacks sufficient policy incentives to decarbonize it. Businesses and consumers across the world are seeking less carbon-intensive products or material inputs and are even willing to pay a premium for them as alternative technologies begin to scale.[8] We have the innovation ecosystem and workforce in the US to meet this emerging demand, provided we have supportive policies in place to accelerate the commercialization of less carbon-intensive products. The industrial sector accounts for 23% of all US emissions according to the latest data from the Environmental Protection Agency (EPA).[9] While this puts it slightly behind the transportation (28%) and electric power (25%) industries, it's projected to soon become the largest source of national emissions by sector as electric vehicles and renewable energy continue to proliferate in their respective markets. And with the current Administration rescinding an already insufficient $5.8 billion to fund industrial decarbonization project demonstrations, there are virtually no substantive federal policies in place driving emissions mitigation efforts in heavy industrial sectors.

US policymakers can address this gap in climate strategy by proposing a package of policies that price carbon on a narrow selection of goods (e.g., heavy industry) and hold emitters accountable for the cost of their climate pollution. The regulatory mechanism to assess liability could take one of several forms:

1. **Flat fee on large emitters.** Companies operating large emitting facilities (commonly understood as those producing more than 25,000 tCO2e emissions annually) are assessed a fee per ton emitted. They can fulfill this liability through a combination of CDR purchases and direct taxes to be reinvested in industrial decarbonization policy support.
2. **Fee on emissions above a calculated industry average.** Companies are assessed a fee per ton emitted in excess of respective industry averages. This approach, which is broadly reflected in the Clean Competition Act introduced late last year and discussed later in this memo, narrows the scope of companies subject to a tax. It rewards sustainable manufacturing practices

and incentivizes the adoption of emissions-mitigating technologies to bolster economic competitiveness. As in the previous example, companies would fulfill their liability through a combination of CDR purchases and direct taxes.

3. **Fee during clean-energy surplus periods**. Companies are assessed a fee per ton emitted during periods of surplus clean energy availability on the grid. As low-cost renewable energy continues to come online, the cost of electricity can decrease or even become negative during certain periods of the day. Businesses and policymakers across the world are exploring ways to best leverage these periods of cheap and abundant electricity. Areas of Australia will soon offer free electricity to households for three midday hours to minimize peaks later in the day.[10] Industrial facilities can similarly take advantage of low-cost periods by electrifying their operations using commercially available technologies like industrial heat pumps or thermal batteries. Narrowing the window during which they are charged a fee on emissions limits the cost of compliance, relative to previous options, but sends a market signal to adopt cost-competitive alternatives that provide the heat necessary for manufacturing operations without using fossil fuels.

In addition to CDR purchases, companies comply by paying a portion of their total compliance obligations to the federal government to be reinvested in a program funding the development, demonstration, and deployment of clean industrial technologies. The amount of CDR purchases needed to satisfy the compliance requirement could start small and gradually increase, allowing for more supply to enter the market and providing companies with a runway to decarbonize their operations. In effect, CDR industry growth would accelerate to meet the new and enduring demand, while industrial companies are incentivized to mitigate emissions and have access to newly available resources that subsidize the development and commercialization of cleaner industrial technologies.[11] DAC is a costly carbon removal tool, which makes a CDR mandate a powerful incentive to invest in lower-cost emissions-mitigating technologies.[12] Under this policy scenario, heavy industry could largely decarbonize by mid-century, and CDR offset purchases cover only residual emissions that cannot be reasonably

mitigated with available technology. Over that span, the US will have positioned its CDR industry to also supply removals to foreign buyers in compliance markets around the world, contingent on trade agreements enabling such transactions.

How is this different from a traditional carbon tax? In short, the price impact from the added costs of sectoral compliance has a negligible impact on consumer-facing goods and could therefore sidestep the political fight that comes with raising the cost of gasoline or home heating. For example, increasing the cost of steel for automobile production by 25%, as recently implemented tariffs have done, raises the total cost borne by consumers by roughly 1%.[13,14,15,16]

And while "green steel" made using hydrogen costs roughly 40% more than its traditionally-made alternative, supportive policies such as the clean hydrogen tax credit can cut that premium by up to 40% today.[17] As clean alternative technologies scale and even more alternatives develop — like steel made via electrolysis — that premium will continue to erode, making emissions-free steel potentially even cheaper than its fossil fuel counterpart.[18]

As we have learned in the aftermath of the Inflation Reduction Act (IRA) implementation, subsidies alone are often not enough to incentivize the shift to clean industrial technologies. In addition to providing cost support for research and development and commercialization of innovative technologies, government policies must also create sufficient demand for such products to be transformative. A narrowly applied compliance mechanism and federal innovation investment would provide both demand and supply-side policy support, while being revenue neutral at a time when rising deficits may constrain the political appetite for federal deficit spending. Like procurement, a purchase mandate policy can support a broad range of CDR pathways with a technology-neutral approach, to an extent practicable. The CDR field is still young, and policymakers should avoid over-indexing in any one technology at the expense of another because we do not yet know which will be the most scalable over the coming decades. We do know, however, that in order to truly compensate for each ton of carbon a facility puts into the atmosphere, its operator should be

required to remove and permanently (1,000+ years) store an equivalent ton, referred to as the "like for like" principle.

As the science continues to develop regarding the storage capacity of various CDR pathways, requiring the purchase of a CDR portfolio that includes a number of pathways is a way to provide broad support to the field at large. In order to maintain strong guardrails regarding highly certain removal and permanent storage, the portfolio could be structured in a way that gradually phases in highly certain, permanent tons and phases out less certain and/or durable tons, as recommended in a Rocky Mountain Institute-led coalition response to the Science-Based Targets Initiative's (SBTi) draft guidance on accounting for carbon removal in its corporate net-zero standard.[19] This approach maximizes short-term deployment of CDR while encouraging investment in highly certain and permanent solutions, as well as continued development of MMRV research and protocols to unlock potential pathways as viable permanent options.

California proposed a similar policy in the 2023 Carbon Dioxide Removal Market Development Act (SB 308). The bill would have required covered entities, or those emitting more than 25,000 tons of carbon dioxide per year, to purchase negative emissions credits equal to a specified amount of their GHGs, as determined by the California Air Resources Board (CARB), in service of reaching the state's net-zero emissions goals.[20] To balance a commitment to technological neutrality and permanence of removal, covered entities would be able to purchase negative emissions credits from lower durability CDR solutions in the near term, with a commitment to purchase an increasing amount of permanent CDR solutions. Covered industries opposed the bill, citing added compliance costs. Under a state-level framework, it would be too easy for companies to move to neighboring states with less ambitious climate policies. Under a federal framework, however, it would be more difficult to outsource operations abroad.

And while covered industries could face increased international competition, the federal government can complement a purchase mandate policy with a trade policy that levels the international playing field.

3. Leveraging trade policy to insulate domestic industries from unfair foreign competition

Even if this framework largely protects consumers from politically salient price increases, many companies in covered industries will nonetheless see their compliance costs increase at first. We need a complementary trade policy to level the international playing field and protect domestic manufacturers and workers from foreign competitors subject to weaker environmental standards.

This phenomenon has been occurring across US communities for decades, even without a tax, as industrial facilities have shuttered and communities have been left hurt by the forces of globalization and outsourcing. Since 1998, the US has been outsourcing its emissions, as other countries, often with weaker environmental and labor regulations, produce the goods that we primarily manufactured domestically and now import.[21] The US is also importing those emissions, effectively supporting manufacturers abroad that make comparatively dirtier, or more carbon- intensive, goods. We can incorporate a CBAM into our national trade policy to level the playing field among industrial manufacturers, bolstering US competitiveness and limiting climate pollution abroad by levying a tax on carbon-intensive imports.

A CBAM imposes tariffs on imports based on their carbon intensity, or the amount of tCO2e emissions that were emitted during the lifecycle of a manufactured good. By incorporating the cost of climate pollution, this policy rewards sustainable manufacturing processes and incentivizes developing and deploying decarbonization technologies. The selection of "covered products" subject to such a fee varies across existing CBAM proposals but universally includes major industrial sectors.[22]

In January of this year, the European Union became the first trading bloc to

implement a carbon tariff, and countries including the United Kingdom, Canada, and Australia, among others, are in various stages of implementing or considering their own policies. In the US, Sens. Whitehouse (D-RI) and Cassidy (R-LA) have introduced respective bills proposing a US CBAM, demonstrating the bipartisan appeal of a policy that incentivizes the adoption of clean manufacturing technologies and processes.

By levying tariffs on carbon-intensive imports, either proposal stands to reward US manufacturers, who in aggregate produce comparably cleaner goods than their foreign competitors, and raise revenue that can be reinvested in continued decarbonization efforts.[23] Such an import fee would allow US manufacturers to absorb the added compliance costs imposed by a CDR purchase mandate without facing unfair foreign competition, which would be subject to the same costs. This trade policy would also provide much-needed policy certainty, grounding the application of tariffs in a transparent and rules-based way rather than the uncertain, fluctuating method favored by the current Administration.

Notably, both US proposals allow for the voluntary incorporation of CDR in product intensity calculations. Sen. Whitehouse's Clean Competition Act limits the inclusion of CDR insets or offsets to DAC, and while Sen. Cassidy's Foreign Pollution Fee Act has a broader definition of CDR, it does not subject domestic manufacturers to compliance fees. With respect to the incorporation of CDR, we propose broadening the scope of CDR pathways by allowing portfolio purchases and assessing fees based on product carbon intensity to foreign and domestic companies alike. Crucially, we recommend newly raised revenue be reinvested in decarbonization efforts to accelerate the development and commercialization of clean industrial technologies, including CDR. However, as discussed in the previous section, we propose making portfolio CDR purchases mandatory to cover a gradually increasing portion of a company's total liability based on its carbon emissions.

If a CBAM is enacted without a CDR purchase mandate, a portion of the revenue

raised can be used to directly fund a federal procurement program, gradually increasing over time as industry decarbonizes and CDR is needed to cover residual emissions.

Lastly, a standardized method of data collection and comparison is central to administering this framework. In the US, the Environmental Protection Agency's (EPA) Greenhouse Gas Reporting Program, which requires emissions disclosures from major industrial facilities, effectively enables product-to-product comparisons on the basis of carbon intensity. In the face of opposition from a broad range of industries, the current Administration is seeking to limit EPA's authority to require the mandatory disclosure of industrial emissions.[24] While the program may functionally continue as a repository for voluntary disclosures collected by an non-government entity as opponents pursue legal challenges to EPA's proposed rollback, any future CBAM legislation must require the mandatory submission of standardized emissions data that enables product comparison.

Conclusion

The US has the entrepreneurial ecosystem, technical expertise, and geographic benefits to lead what could be a trillion-dollar global CDR industry by 2050.[25] While US companies have capitalized on modest federal funding to build an early technological advantage, sustained federal support is necessary to continue fostering innovation and accelerate the commercial deployment of CDR solutions. The "Demand Triangle" of policies discussed in this memo would unlock growth in both the CDR and clean industrial industries, while mitigating emissions in line with midcentury climate goals.

Inflation still weighs heavily on voters' minds, and proponents of a strategic compliance policy that raises the cost of some goods, even marginally, must make the case that it is ultimately better for consumers than our existing tariff regime. Relatedly, the cost of inaction on decarbonization invites long-term inflationary pressures we can no longer ignore.

First, the cost of extreme weather events, fueled by a warming atmosphere, continues to rise in the form of repairing damaged infrastructure or insuring against such risk.[26] Mitigating global greenhouse gas emissions limits our exposure to extreme weather and the resulting inflationary pressures, over time. And second, fossil fuel prices are volatile and fluctuate unpredictably based on global geopolitical events, as US military intervention in Iran and the subsequent closure of the Strait of Hormuz, a major shipping lane, have shown. Major supply disruptions can ripple across the global economy, increasing prices on everything from the gasoline that fuels our cars to the food we eat, grown using petrochemical fertilizer.[27] Investing in technologies that enable cleaner manufacturing processes insulates those industries and their customers from inflationary and inevitable disruptions to the global fossil fuel supply chain.

As the cost of renewable energy continues to decline, US industries can take

advantage by adopting technologies that leverage inexpensive sources of electricity and limit exposure to volatile fossil fuel markets. Thoughtful federal policy can accelerate the rate of adoption, mitigating climate pollution and positioning the US to lead across multiple clean energy industries.

The overall framework presented in this memo enables the conditions to grow and sustain an effective CDR industry while supporting the development and deployment of clean industrial technologies at scale.

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