

## Climate Policy in the Shadow of National Security

**Authors and affiliation: Peter Kjær Kruse-Andersen**

**Abstract:** Recent events have clarified the interdependence of national security and energy supply. Specifically, it has become increasingly evident that heavy reliance on foreign fossil fuel supply may come at a national security cost. The present study derives the optimal policy of a net fossil fuel importing economy with a binding climate target, when fossil fuel imports are associated with national security costs. The study shows that optimal carbon taxes are differentiated across fossil fuels and that domestic fossil fuel production should be subsidized. Further, carbon capture and storage should be taxed, while no subsidies should be granted to green energy production. These results contrast the typical climate policy recommendation of uniform carbon taxation.