COFFIS
Coalition on Phasing Out Fossil Fuel Incentives Including Subsidies

COFFIS Submission to the COP30 Presidency Consultation on a Roadmap for Transitioning Away from Fossil Fuels in a Just, Orderly and Equitable Manner

This submission was prepared by the Secretariat of the Coalition on Phasing Out Fossil Fuel Incentives Including Subsidies (COFFIS), hosted by the International Institute for Sustainable Development (IISD), and do not necessarily reflect the views of all COFFIS members. For further information: www.iisd.org/coffis

The scale of public support for fossil fuels remains a significant obstacle to delivering the COP28 commitment to transition away from fossil fuels. In 2024, fossil fuel subsidies alone totaled at least USD 921 billion, in addition to fossil fuel spending in the form of State-Owned Enterprise capital expenditure, and USD 37 billion in international public finance for fossil fuels. Despite efforts to reduce this in some countries, these levels remain among the highest on record.

Fossil fuel subsidies are typically introduced to address affordability, industrial competitiveness, or energy security, and many date back decades. Yet, they are not the most effective policies to achieve these objectives – better policy options exist such as targeted assistance to low-income households or non-fossil fuel incentives to key industries, particularly in light of technological progress and evolving policy priorities. Reform efforts that exist often tend to be incremental and reactive — triggered by fiscal pressures or price shocks — and are frequently reversed when rising international prices increase pressure on governments to restore affordability.

Fiscal policies – including fossil fuel subsidy reform – are one of the most effective policy instruments that governments have to promote a transition away from fossil fuels. In that sense, the TAFF Roadmap represents a critical opportunity to move to a system that supports people, increased fiscal space and broad energy security over supporting fuels.

a) What are the most critical barriers — whether physical, economic, financial, institutional, technological or social — preventing a transition away from fossil fuels?

Fossil fuel subsidies are not a passive policy relic — they are an active barrier to the transition. Research suggests that countries pursuing high-subsidy policies emit approximately 11.4% more greenhouse gas emissions than those pursuing high-tax policies. As such, the persistence of fossil fuel subsidies directly prevents the shift away from fossil fuels through three reinforcing mechanisms.

1. Fossil fuel subsidies encourage overuse and undermine energy efficiency

By artificially lowering the price of fossil fuels, fossil fuel subsidies reduce incentives for energy efficiency investment and inflate demand beyond economically efficient levels. This locks households and businesses into fossil fuel-intensive consumption patterns, making demand reduction structurally harder to achieve.

2. Fossil fuel subsidies disadvantage renewables and create carbon lock-in

Subsidies do not just support fossil fuels — they tilt the competitive landscape against clean alternatives. By reducing the effective cost of fossil-based energy, they suppress investment in renewables and slow the diffusion of low-carbon technologies. On the production side,

subsidies inflate supply, reduce prices, and entrench long-term capital investment in fossil infrastructure, deepening carbon lock-in and increasing the risks of stranded assets.

3. Fossil fuel subsidies constrain economic diversification

Sustained public financial support for fossil fuels diverts capital from the investments needed to transform energy and economic systems. In fossil fuel-exporting countries particularly, but also in heavily fossil fuel dependent areas within countries that are not large exporters, fossil fuel subsidies reinforce structural dependence on revenues and sectors facing long-term decline, delaying diversification into more resilient activities. For all these countries, fiscal resources tied up in fossil fuel subsidies represent an opportunity cost: every dollar spent supporting fossil fuels is one not invested in clean energy, workforce transition, or social protection, which eventually makes the transition away from fossil fuels in such areas harder.

b) What potential levers, whether economic, financial, institutional, social or technological, exist for accelerating the implementation of the transitioning away commitment?

The IPCC suggests that fossil fuel subsidy reform could reduce GHGs by up to 10% by 2030, while the IMF found that the reform of explicit fossil fuel subsidies reduces CO_2 emissions by 5% by 2030 and IISD modelling estimated an average 6% reduction by 2030 relative to business-as-usual, with a possible increase to a 9% reduction if fiscal savings were to be reinvested into energy efficiency and renewables.

Given the distortions described above, phasing out fossil fuel subsidies should be treated not as one policy option among many, but as a priority lever and early entry point for the TAFF commitment. It is particularly well-suited to underpin the Roadmap's implementation strategy for three key reasons:

1. An immediate, flexible, and fiscally generative entry point

Unlike other policy interventions, fossil fuel subsidy reform does not prescribe specific technologies or outcomes. It removes a public distortion and lets market signals guide investment — making it adaptable across national contexts and more politically feasible. It can be initiated immediately, with effects that materialise quickly in contrast to other interventions that provide rather long-term direction. And instead of requiring additional public expenditure, phasing out fossil fuel subsidies generates fiscal savings that can be reinvested in clean energy, energy efficiency, social protection for vulnerable households, or economic diversification — directly funding the transition it helps to enable.

2. A comprehensive instrument addressing both supply and demand

Fossil fuel subsidies exist on both the consumption and production sides of the market. Consumption subsidies inflate demand; production subsidies inflate supply. Addressing only one side risks shifting rather than eliminating distortions. Unlike many policy interventions that focus on one of the elements only, phasing out fossil fuel subsidies can address both the production and consumption side in a coordinated manner and as such support an orderly and equitable market transition right from the start.

3. A means of restoring policy coherence and sending a credible political signal

Many countries have already introduced or are strengthening carbon pricing, clean energy standards, and other climate instruments. Continued fossil fuel subsidies directly undermine these measures, reducing the effective carbon price and blunting the investment signal. This

internal policy incoherence is economically costly and damages certainty for businesses and consumers. Phasing out fossil fuel subsidies removes this contradiction and aligns fiscal, energy, and climate policy. It also sends a credible political signal: ceasing to direct public money toward the fossil fuel sector is among the most tangible actions a government can take to demonstrate genuine commitment to the transition.

c) What country, regional or sector roadmap experiences, best practices, and lessons learned can be shared?

Commitments to phase out fossil fuel subsidies have been around for more than a decade and were made in many multilateral settings, including the G20 and APEC, the SDGs, and the UNFCCC, including as part of the Global Stocktake decision. Yet implementation has been slow. One of the key challenges has been translating high-level commitments into concrete, actionable reform processes.

Based on lessons from past experiences, the success and durability of reforms depend strongly on how the process is designed and implemented. A gradual phase-out, anchored in a clear and predictable timeline, reduces uncertainty for households and firms, allowing them to adjust behaviour and investment decisions over time rather than reacting to sudden price shocks. Early stakeholder engagement through structured consultations is critical to identify distributional impacts, anticipate political resistance, and build broader ownership — particularly in sectors or regions highly exposed to fossil fuel use. Targeted communication campaigns help shape public perception, explain the rationale for reform, and maintain trust, especially where price impacts are highly visible. Complementary policies — such as targeted social protection, support for affected workers and industries, or measures to expand access to affordable clean alternatives — are essential to mitigate adverse impacts and ensure reforms are socially and politically sustainable. These measures are most effective when designed and, where possible, implemented before or alongside the reform.

COFFIS members are showing that governments — national but also subnational ones — can take concrete action to move forward with implementing the commitment to phase out fossil fuel subsidies. The TAFF Roadmap should build on these examples and integrate the COFFIS approach to ensure a sustained and systemic implementation of the phase-out of fossil fuel subsidies.

Transparency and subsidy inventories

Many governments lack a comprehensive picture of their own fossil fuel support. COFFIS members have committed to publishing periodic, publicly accessible subsidy inventories. Several members have already established annual update processes and there has been some work to align the approaches countries are taking through a common set of minimum standards to improve methodological consistency — covering scope, valuation, and the treatment of implicit fossil fuel subsidies. The Roadmap should recommend that all countries develop and publish fossil fuel subsidy inventories as a baseline action.

National phase-out plans

COFFIS members committed to developing national fossil fuel subsidy phase-out plans that, among others, may include setting out timelines, sequencing, institutional responsibilities, and provisions for social protection and other complementary policies. In its function as COFFIS secretariat, IISD has published guidance identifying primarily three categories of action: direct removal of subsidies that no longer serve a public policy purpose and whose

quick removal would not result in any significant disruptions; replacement of untargeted subsidies with targeted support for vulnerable groups, requiring broader and robust strategies; in rare cases, further targeting and reassessing fossil fuel subsidies that may still be required to address genuine needs, such as energy access or clean cooking of vulnerable groups, while actively working on the substitution of fossil fuel systems with clean alternatives. The Roadmap should encourage parties to develop national fossil fuel subsidy phase-out plans as a practical vehicle for implementing their TAFF commitments.

Addressing international barriers

Some of the most entrenched fossil fuel incentives are embedded in international frameworks beyond the jurisdiction of individual governments: fuel tax exemptions under ICAO and IMO, and trade-related provisions that constrain domestic reform. COFFIS is looking to address these barriers through engagement in relevant intergovernmental bodies. The Roadmap should explicitly recognise international barriers to fossil fuel subsidy reform and call for coordinated action to remove them.

d) How can a just, orderly and equitable transition best reflect the diverse realities of countries at different stages of development and with different degrees of dependence on fossil fuels?

Fossil fuel subsidies are present across all types of countries, though their form varies. In high-income countries they are predominantly tax expenditures and below-market financing; in developing countries, they more often take the form of administered prices set below market costs, and if considered in this way, broader underpricing of externalities. A just, orderly and equitable transition must address both forms and ultimately, both developed and developing countries have a huge amount to gain from phasing out fossil fuel subsidies: fiscal savings, reduced externalities from fossil fuels such as health impacts from air pollution, and improved energy security through diversification into renewable energy.

The appropriate sequencing and design of reform will vary by context. Some subsidies serve legitimate social purposes — such as affordable access to cooking fuels or electricity in off-grid communities — and can only be sustainably phased out once fossil-free alternatives are available and affordable (which governments have a role to scale). Gradual, well-sequenced reforms that align phase-out timelines with the deployment of clean alternatives and strengthened social protection have shown to be more durable and equitable than rapid, shock-driven adjustments.

Developed countries — benefiting from stronger institutions and lower reliance on subsidies for basic needs — can generally move earlier and faster, including on more complex reforms. In contrast, developing countries may require longer timelines and may need to retain targeted subsidies temporarily, especially where alternatives or delivery systems are not yet in place. For developing and fossil fuel-dependent countries, the Roadmap should recognise that reform requires adequate technical capacity, fiscal space, and international support. Climate finance and technical assistance should explicitly cover subsidy reform as a transition-enabling measure, including through upstream policy advice, support for inventory development, and social protection design.