

Draft Corporate Average Fuel Efficiency norms propose stricter fleet emission framework and remove small car concessions

The Ministry of Power, through the draft Corporate Average Fuel Efficiency (“CAFE”) norms (“**Draft CAFE-3**”), proposes the next phase of India’s fuel efficiency regime for passenger vehicles, intended to come into effect from April 1, 2027. The CAFE framework, first introduced in 2017 under the Energy Conservation Act, 2001, mandates fleet-wide emission and fuel consumption limits for automobile manufacturers, with compliance assessed on an average basis across their vehicle portfolio.

The Draft CAFE-3 norms signal a shift towards a stricter and more uniform regulatory approach by tightening emission reduction pathways and recalibrating incentives for cleaner technologies. The framework aims to accelerate adoption of Electric Vehicles (“EVs”), hybrid technologies, and other low-emission alternatives, while addressing concerns raised by industry stakeholders regarding regulatory equity and competitive neutrality.

The revised draft follows extensive consultations between the Government and industry participants and removes earlier proposals that were perceived to create disproportionate advantages for certain market segments. The framework is expected to apply to passenger vehicles (including petrol, diesel, compressed natural gas, liquefied petroleum gas, hybrid, and EVs) with a gross vehicle weight of up to 3,500 (three thousand five hundred) kilograms.

Salient features

- 1. Fleet-based emission compliance framework:** The Draft CAFE-3 continues the fleet-based compliance mechanism, requiring manufacturers to meet prescribed average emission and fuel efficiency targets across their entire vehicle portfolio, rather than on an individual vehicle basis. This approach ensures that compliance is assessed holistically across all models sold by a manufacturer.
- 2. Removal of small car concessions:** The revised Draft CAFE-3 eliminates the earlier proposal granting additional emission reduction benefits to small cars. This concession had been widely debated on the grounds that it could disproportionately benefit manufacturers with a dominant presence in the small car segment. Its removal reflects the intent to ensure a level playing field and avoid segment-specific regulatory advantages.
- 3. Stricter emission reduction trajectory:** The Draft CAFE-3 outlines a steeper reduction pathway for fleet emissions, requiring manufacturers to achieve more substantial efficiency improvements across their portfolios. The framework targets a reduction in average fleet emissions from approximately 114 (one hundred and fourteen) grams per kilometre to around 100 (one hundred) grams per kilometre by March 2032.
- 4. Super-credit mechanism for cleaner vehicles:** The Draft CAFE-3 introduces a super-credit system to incentivise cleaner technologies. Under this mechanism, EVs are proposed to be counted as 3 (three) vehicles for the purpose of fleet emission calculations, thereby enabling manufacturers to reduce their average emissions more rapidly.

Similarly, other cleaner technologies such as plug-in hybrids and strong hybrids are assigned lower multipliers, encouraging diversification towards low-emission vehicle portfolios.

5. **Credit pooling and trading framework:** The Draft CAFE-3 provides for a credit-debit mechanism, allowing manufacturers to pool, trade, or purchase compliance credits. Manufacturers exceeding emission targets may generate credits, which can be transferred to other manufacturers falling short, thereby introducing a market-based mechanism for compliance.
6. **Credit purchase mechanism:** Credits may also be purchased from the Bureau of Energy Efficiency to offset any debit balance accumulated in a manufacturer's passbook, at prescribed rates per gram CO₂/km for each reporting period (Financial Year ("FY") 2028 – INR 2,500 (Indian Rupees two thousand five hundred); FY 2029 – INR 3,000 (Indian Rupees three thousand); FY 2030 – INR 3,500 (Indian Rupees three thousand five hundred); FY 2031 – INR 4,000 (Indian Rupees four thousand); and FY 2032 – INR 4,500 (Indian Rupees four thousand five hundred)).
7. **Applicability and compliance period:** The Draft CAFE-3 are intended to be applicable for a period of 5 (five) years, from April 1, 2027 to March 31, 2032, covering passenger vehicles falling under the specified weight and category thresholds.
8. **Penalty for non-compliance:** Manufacturers failing to meet the prescribed fleet emission targets may be subject to financial penalties on a per-vehicle basis. The Draft CAFE-3 framework contemplates penalties for each non-compliant vehicle sold, with the amounts to be credited to the Central Energy Conservation Fund.
9. **Industry impact and compliance outlook:** The Draft CAFE-3 is expected to have varied implications across manufacturers depending on their product mix and technological readiness. While manufacturers with higher penetration of cleaner technologies may be better positioned to comply, others may face challenges in meeting the stricter emission targets without significant portfolio realignment.

Conclusion

The Draft CAFE-3 norms represent a significant evolution of India's vehicle emission regulatory framework, with a clear shift towards stricter, technology-neutral, and market-based compliance mechanisms. By removing segment-specific concessions and strengthening incentives for cleaner technologies, the framework seeks to drive uniform emission reductions across the automotive sector. Stakeholders should closely evaluate the proposed provisions and align their product strategies, investments, and compliance mechanisms in anticipation of the final notification and its implementation from April 2027.

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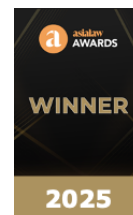
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