

CAFE-III norms notified; no carve-out for small cars

Manufacturers will face revised emission targets from April 2027

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After multiple drafts, intense discussions and bitter fights among carmakers over the past 27 months, the Ministry of Power late Tuesday night notified the Corporate Average Fuel Economy (CAFE-III) norms to lower carbon dioxide emissions.

The final notification made it clear that small cars will not get a separate concession. Maruti Suzuki India (MSIL), India's largest carmaker and the country's dominant small-car seller, had strongly pushed for such relief.

The September 2025 draft had introduced a provision that would have given petrol cars weighing up to 909 kg a special 3 grams per km (gm/km) concession. Under the proposal, 3 gm/km would be deducted from the carbon dioxide emissions figure of such cars while calculating the manufacturer's CAFE performance.

Various other automakers — including major electric vehicle (EV) makers Tata Motors and JSW MG Motor — had vehemently opposed the carve-out, stating that it would disproportionately benefit a segment



dominated by one carmaker. The dispute kept escalating and finally reached the Prime Minister's Office (PMO). The CAFE-III norms will come into effect from April 2027 and remain in force until March 2032.

Small-car dispute settled
The government has settled the dispute not by giving any carve-out, but by changing the main CAFE equation itself, which is used to calculate the carbon dioxide emissions target for each automaker.

This is important because CAFE targets are not fixed for every car. They are calculated for each manufacturer's fleet based on the weighted average weight of the vehicles it sells. The heavier the fleet, the higher the permitted fuel consumption target.

The September 2025 draft used 1,170 kg as the reference weight and had a relatively steep weight adjustment. It also separately gave qualifying sub-909 kg petrol cars a 3 gm/km concession.

The final notification removes that separate concession and shifts the reference weight to 1,229 kg. It also uses a flatter weight adjustment, with the annual multiplier declining from 0.00158 in FY28 to 0.00131 in FY32. In simple terms, this changes the benefit across the industry. Lighter fleets get a softer target than they would have under the September 2025 formula, while heavier fleets get a harder target.

For example, using the final notification's formula, a 909-kg car gets an FY28 emissions target of about 82.8 gm/km, compared with about 76 gm/km under the September 2025 formula. At the other end, a 2,500-kg car gets an FY28 target of about 142.4 gm/km under the final formula, compared with about 151.4 gm/km under the September 2025 formula. This means the final formula is significantly stricter for very heavy vehicles.

Thus, rather than creating a special category for cars below

909 kg, the government has effectively built more relief for lighter vehicles into the broader formula.

In its statement, the Ministry of Power said: "The revised target line has been flattened to provide a more balanced, weight sensitive approach, with relatively softer targets for lighter vehicles and greater fuel efficiency requirements for heavier vehicles. The reference weight has been increased from 1,082 kg under existing (CAFE-II) norms to 1,229 kg under new (CAFE-III) norms, an increase of around 13.6 per cent, reflecting the evolving characteristics of the passenger vehicle fleet."

The first CAFE-III draft was released by the Bureau of Energy Efficiency (BEE) — which works under the Ministry of Power — in June 2024. Maruti subsequently sought separate relief for small cars. The September 2025 draft formally introduced the 3 gm/km provision, after which the industry split sharply. The BEE issued another revised draft in July this year, wherein it removed the carve-out for small cars.

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Journey of CAFE-III proposals

Parameter	First proposal (June '24)	Revised draft (Sep '25)	Revised draft (July '26)	Final notification (Sept 29, '26)
Small-car special benefit	No carve-out mentioned	Carve-out introduced of 3 gm/km *	Carve-out removed	No carve-out mentioned
Electric vehicle super credit**	4x	3x	3x	3x
Strong hybrid vehicle super credit	1.2x	2x	1.6x	1.6x
Flex-fuel vehicle super credit	Not mentioned	1.5x	1.1x	1.1x
Compliance structure	No credit-debit system	No credit-debit system	Annual credits/debit system introduced, settled through 3-year and 2-year compliance blocks	Annual credits/debits, settled through 3-year and 2-year compliance blocks

*This carve out for cars weighing less than 909kg started a bitter fight among carmakers, with even Prime Minister's Office being asked to intervene
**Super credit is a provision under which certain cleaner vehicles get greater weight in the sales-weighted fleet average, helping lower a manufacturer's overall average emissions and meet its CAFE target
Source: Govt documents