

Siam urges govt to fully exempt LCVs from CAFE regulations

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The Indian automobile industry has urged the Centre to completely exempt N1 light commercial vehicles (LCVs) from the new Corporate Average Fuel Efficiency (CAFE) norms that will come into effect in April 2027, sources told *Business Standard*.

This category of LCVs is defined as goods-carrying vehicles with a gross vehicle weight not exceeding 3.5 tonnes.

Last month, the Society of Indian Automobile Manufacturers (Siam) made the exemption request on multiple grounds. This included a prolonged sales slowdown in the segment, rising costs due to frequent regulatory changes, weak electric vehicle penetration in this category and limited access to affordable finance for buyers.

A total 466,623 N1 vehicles were sold in India in FY25, marking a 5.81 per cent year-on-year (Yo-Y) decline, according to Siam. Mahindra & Mahindra, Tata Motors, and Ashok Leyland were the top three players in the segment during FY25.

CAFE norms are government-mandated fuel consumption standards that require auto manufacturers to meet fleet-wide average carbon dioxide emission targets, based on vehicle weight and sales volume. These norms are designed to reduce oil imports and carbon emissions from road transport.

Automakers that fail to

meet the requirement are liable to pay penalty based on vehicle basis.

The ongoing competition among the auto industry, the Bureau of Energy Efficiency (BEE), Ministry of Power and Ministry of Heavy Industries (MHI) are focusing on the next two phases of regulations — CAFE-3 and CAFE-4.

These are scheduled to come into effect from April 2027. Each phase is expected to remain applicable for a five-year period, stretching the regulatory horizon to March 2037.

Last month, the Siam made a formal submission to the central government requesting a complete exemption for N1 category vehicles from the upcoming fuel efficiency mandates.

The submission argued that this segment has been under prolonged stress, recording a compound annual decline of 1.64 per cent in sales between FY19 and FY25.

Although there was a temporary jump in volumes after the pandemic due to demand for last-mile delivery, the trend has since reversed.

The performance of N1 vehicles, Siam said, does not align with the broader GDP growth, indicating structural weaknesses.

A key factor behind the segment's stagnation, the submission pointed out, has been the rapid succession of regulatory mandates like the BS-IV to BS-VI transition in 2020, the



What Siam said

- N1 vehicle sales are declining despite post-Covid recovery
- Frequent regulatory changes have sharply raised ownership costs of N1 vehicles
- Most N1 buyers have low-income, self-employed driver-owners
- N1 vehicles contribute just 1.7% to transport GHG emissions
- Imposing CAFE norms on N1 vehicles would hurt livelihoods, yield little benefit

introduction of real driving emissions (BS 6.2) in 2023 and the proposed ethanol fuel standards (E20), among others.

Siam did not respond to *Business Standard's* queries regarding this matter.

According to sources, the Siam also highlighted the steep affordability gap between Indian LCV buyers and their European counterparts.

While a European operator can typically buy an LCV with 9 to 10 months of income, the same acquisition in India requires over

40 months of earnings.

Around 80 per cent of N1 owners in India are single-driver operators, who fall within the annual income range of ₹5 lakh to ₹12.5 lakh and rely on their vehicles for daily income generation.

Siam pointed to additional challenges faced by these buyers, including poor access to low-interest loans from public sector banks, reliance on costlier non-banking lenders, and urban restrictions that limit vehicle operations to specific hours.

These reduce asset utilisation and returns on investment. Moreover, N1 vehicles are in direct competition with three-wheeler cargo carriers, which are cheaper to buy and operate, the industry body stated, according to sources.

Importantly, the Siam said that N1 vehicles contribute just 1.7 per cent to transport-related greenhouse gas emissions in India and a mere 0.13 per cent to the transport sector's crude oil import bill.

Given this low environmental footprint, the industry argued that imposing CAFE targets on this segment would yield minimal climate benefits but hurting livelihoods.

As an alternative, Siam has proposed a data-driven approach: manufacturers would voluntarily report annual N1 vehicle sales, including fuel mix, and corresponding fleet average carbon dioxide emissions to the BEE.

The BEE, in turn, could periodically review the data to evaluate the need for future policy interventions.