भारतीय कम्पनी सचिव संस्थान
THE INSTITUTE OF
**Company Secretaries of India**
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

*Vision*
"To be a global leader in promoting good corporate governance"

*Motto*
सत्यं वद। धर्मं चर। speak the truth, pursue righteousness

*Mission*
"To develop high calibre professionals facilitating good corporate governance"

# ESG
# CATALYST

***An ICSI initiative towards building awareness in ESG landscape***

"Where Sustainability Meets Innovation"

# Corporate Average Fuel Economy (CAFÉ) 2027

The proposed **Corporate Average Fuel Economy (CAFE) 2027** regulations represent the next phase of India's strategy to improve fuel efficiency and reduce emissions from passenger vehicles.

**Regulatory Scope & Objectives (Effective 1 April 2027):**

The framework will apply to all M1 category passenger cars sold in India and seeks to encourage:

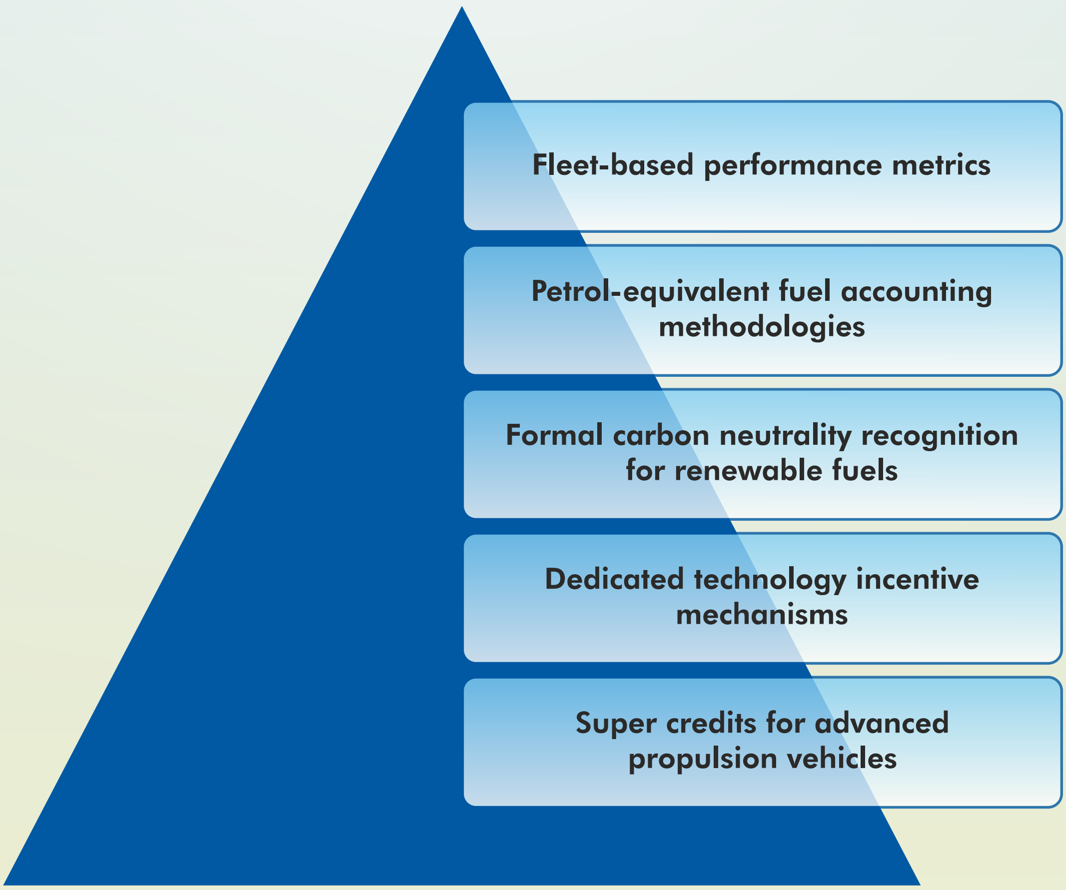
- **Cleaner Technologies**
- **Alternative Fuels**
- **Lower Overall Fuel Consumption**

## A. EXECUTIVE BACKGROUND & REGULATORY EVOLUTION:

The passenger vehicle segment in India represents a major proportion of the nation's total transport energy demand and accounts for a significant share of fossil fuel consumption. While the automobile industry has made commendable strides under the existing Corporate Average Fuel Economy (CAFE) framework, rapid technological advancements, growing adoption of alternative fuels, and rapid deployment of electrified vehicle technologies necessitate a comprehensive and modernized overhaul of regulatory landscape.

The proposed CAFE 2027 Regulations mark a pivotal evolution in India's regulatory framework for passenger vehicle fuel efficiency.

The framework establishes a balanced and holistic paradigm designed to continually elevate energy efficiency of India's passenger car fleet by incorporating the following:



Historically, Indian automobile manufacturers have demonstrated strong performance against target fuel economy benchmarks since the inception of CAFE regulations in 2017:

**Performance overview**

| | | |
|---|---|---|
| **+10%** | **CAFE Cycle 1 Performance** | **Average industry fuel efficiency performance outperformed statutory baseline target by 10%.** |
| **+9%** | **CAFE Cycle 2 Performance** | **The industry sustained its momentum, exceeding statutory target expectations by 9%.** |

This sustained track record of overachievement has delivered measurable reductions in national carbon emissions while strengthening India's macroeconomic energy security through reduced reliance on imported crude oil.

**B. FUNDAMENTAL RATIONALE FOR CAFE 2027:** The rationale underpinning the transition to CAFE 2027 framework rests on six critical structural drivers:

**Beyond Conventional Powertrains:**
CAFE 2027 modernizes legacy framework to accommodate diverse fuels & advanced propulsion technologies beyond traditional ICE vehicles.

**Supporting Technological Diversity:**
It establishes an inclusive regulatory structure for the growing range of alternative fuels and innovative vehicle technologies.

**Long-Term Target Certainty:**
Clear, progressive targets over a 5-year compliance period provide OEMs with greater planning certainty for investments and product development.

**Lifecycle Carbon Recognition:**
The framework strengthens recognition of renewable fuels and their contribution to reducing lifecycle carbon emissions.

**Encouraging Eco-Innovations:**
Dedicated credit mechanisms reward the adoption of advanced fuel-saving and efficiency-enhancing technologies.

**Greater Business Flexibility:**
Market-oriented compliance tools improve ease of doing business while supporting regulatory objectives.

## C. KEY REGULATORY PROVISIONS & MECHANICS:

### 1. Target Determination & Performance Accounting:

**Mass-Weighted Target Determination**

Manufacturer-specific Annual Average Fuel Consumption Standards continue to be derived from the weighted average unladen mass of all vehicles sold in each corresponding reporting year.

**Sales-Weighted Accounting**

Fleet-wide performance is evaluated utilizing a standardized sales-weighted average petrol-equivalent fuel consumption formula.

### 2. Emissions Conversion & Carbon Neutrality:

**Standardized $CO_2$ -to-Fuel Conversion:**

- Tail-pipe $CO_2$ emissions recorded during formal vehicle type approval are converted into equivalent fuel consumption.
- Conversion is done using standardized, uniform conversion factors across all fuel types.
- Power-train architectures are used for accurate performance benchmarking.

**Carbon Neutrality Factors (CNFs):**

- To credit renewable fuels, CNFs allow manufacturers to apply authorized deductions to their declared tailpipe $CO_2$ emissions prior to final statutory compliance calculations.

**Differentiated CNF Allocation:**

- Specific CNFs are awarded for blended renewable fuels.
- Ethanol, Compressed Bio-Gas (CBG), and advanced bio-fuels.
- Fuels are calibrated against official government-notified blending percentages.

### 3. Efficiency Incentives & Super Credits:

- **Eco-Innovation Credits:** Manufacturers can claim up to a maximum fleet reduction of **9.0 g $CO_2$/km** (1.0 g $CO_2$/km per approved technology) subject to technical verification.
- **Super Credits:** To incentivize rapid market penetration of ultra-low and zero-emission vehicles, volume derogation factors (super credits) will be granted during fleet average calculations for:
  - Battery Electric Vehicles (BEVs)
  - Range-Extended Electric Vehicles (REEVs)
  - Plug-in Hybrid Electric Vehicles (PHEVs)
  - Strong Hybrid Electric Vehicles (SHEVs) and
  - Flex-Fuel Vehicles (FFVs)

### 4. Credit Banking, Pooling, and Buyout Mechanisms:

**Credit Banking:** Manufacturers outperforming their annual baseline targets will earn compliance credits, which may be carried forward for utilization within designated multi-year compliance blocks.

**Deficit Mitigation:** Manufacturers facing compliance shortfalls (where fleet average emissions exceed baseline targets) can offset deficits by utilizing banked credits, entering into voluntary pooling agreements with other Original Equipment Manufacturers (OEMs), or purchasing compliance credits directly from BEE via a transparent buyout portal.

5. **Governance, Reporting & Exemptions:**

- **Annual Compliance Filings:** Manufacturers must submit annual vehicle-level reports on sales, fuel consumption, $CO_2$ emissions, and unladen mass.
- **Dual Test Reporting:** Mandatory reporting under both Modified Indian Driving Cycle (MIDC) and Worldwide Harmonized Light Vehicles Test Procedure (WLTP) standards during India's transition to global norms.
- **Governance Framework:** Ministry of Road Transport and Highways (MoRTH) oversees testing and approvals, while BEE manages the credit mechanism with ICAT support.
- **Small-Volume Exemption:** Manufacturers selling fewer than 1,000 units annually are exempt from fleet-average requirements.

## D. STRATEGIC FOOTPRINT & IMPERATIVES FOR COMPANY SECRETARIES (CS)

As Governance Professionals and Chief Compliance Officers - Company Secretaries (CS) occupy a crucial position at the intersection of regulatory compliance, board oversight, and corporate sustainability strategy under the CAFE 2027 regime.

| Governance Dimension | Strategic CS Focus & Deliverables |
|---|---|
| **1. Statutory & Data Governance** | • Ensuring robust data verification for annual disclosures to BEE & MoRTH.<br>• Reviewing auditability of eco-innovation tech credits (up to 9.0 g CO2/km) and bio-fuel CNF claims. |
| **2. Board Advisory & ESG Strategy** | • Mapping regulatory transition risks into long-term product planning and CAPEX.<br>• Integrating CAFE metrics into BRSR (Scope 3) and sustainability disclosures. |
| **3. Financial & Trading Contracts** | • Drafting and executing legally binding credit pooling contracts between OEMs.<br>• Overseeing compliance and financial governance during BEE buyout portal trades. |

# ESG IN NEWS

## California Cap-and-Invest Delivers $36.2B for Climate Programmes

California's carbon market has generated $36.2 billion for climate investment, with $15.5 billion deployed across more than 600,000 projects. California's Cap-and-Invest program, formerly known as Cap-and-Trade, sets a steadily declining limit on greenhouse gas emissions from the state's largest polluters. This framework gives policymakers considerable influence over how carbon-market revenues are spent, while also subjecting funding decisions to annual budget negotiations and competing state priorities.

In May, the California Air Resources Board (CARB) approved updates designed to keep the program aligned with the state's 2030 and 2045 climate objectives. CARB estimates the changes will deliver approximately **$10 billion in electricity bill** credits to consumers. The agency also projects that the updated framework will generate an additional **$8 billion in revenue for the Greenhouse Gas Reduction Fund by 2030.** As emissions trading systems expand around the world, California's Cap-and-Invest model is emerging as an important case study in whether carbon pricing can simultaneously drive industrial decarbonization and support a fair, inclusive transition to a low-carbon economy.

*https://esgnews.com/california-cap-and-invest-delivers-36-2b-for-climate-programs/*

# GLOBAL FRAMEWORKS AND EMERGING

## France Adopts New 2050 Low-Carbon Strategy

France has adopted its third National Low-Carbon Strategy (SNBC-3), establishing updated sector-specific targets to reduce GHG emissions, decrease fossil fuel consumption, and strengthen energy independence.

The strategy outlines France's roadmap to achieving carbon neutrality by 2050 and converts national climate commitments into concrete goals for key sectors such as transport, industry, agriculture, and energy use. Updated every five years, SNBC-3 will shape future regulations, infrastructure development, and public investment, supporting the country's objective of cutting emissions by 50% from 1990 levels by 2030.

For Europe, the plan represents an important test of how long-term climate ambitions can be translated into practical, short-term industrial policies. France now faces the challenge of demonstrating that decarbonisation can simultaneously lower reliance on imported energy, maintain economic competitiveness, and deliver tangible emissions reductions.

*https://esgnews.com/france-adopts-new-2050-low-carbon-strategy/*

# REGULATORY DEVELOPMENT

## India Extends Domestic PV Cell Exemption for Solar Projects till December 2026

Ministry of New and Renewable Energy (MNRE) has extended the exemption from mandatory domestic sourcing of solar photovoltaic (PV) cells for select renewable energy projects until December 31, 2026. This move has provided significant relief to solar developers confronting limited domestic cell availability.

The decision, announced recently, postpones by seven months the requirement for net-metering and open access renewable energy projects to procure solar cells exclusively from manufacturers listed under the Approved List of Models and Manufacturers (ALMM) List-II.

The move ensures uninterrupted project execution for solar developers.

*https://esgnews.com/france-adopts-new-2050-low-carbon-strategy/*