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MARKETING COMMUNICATION

Net-Zero Targets: A Dream or Still a Reality?

- We are further from a net-zero world than anticipated when goals were set in 2015. Political events like the Ukraine war and the new American agenda have brought recent volatility.
- Europe could miss its short-term 2030 climate emissions target—12 European Union (EU) countries are off course, with Germany and Italy the largest defaulters.
- Meanwhile, in the U.S., the new Trump administration is pushing back on short-term emissions targets largely due to energy-security concerns and economic pressures.
- Despite the headwinds, we believe advancing technology and a global alignment toward decarbonization continue to drive the long-term attractiveness of climate-focused investments.

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Energy-security fears, political resistance, and a lack of capital flowing into energy-transition strategies have all combined to impede progress toward a net-zero goal. Even Europe, the net-zero leader, now has 12 countries at risk of missing their 2030 climate emissions target, while the U.S. rolls back on climate-change commitments.

However, despite the short-term challenges, the march of technology and a global move toward decarbonization remain intact and we believe climate-focused investments will continue to be both important and attractive over the longer term.

Europe could miss its short-term emissions target

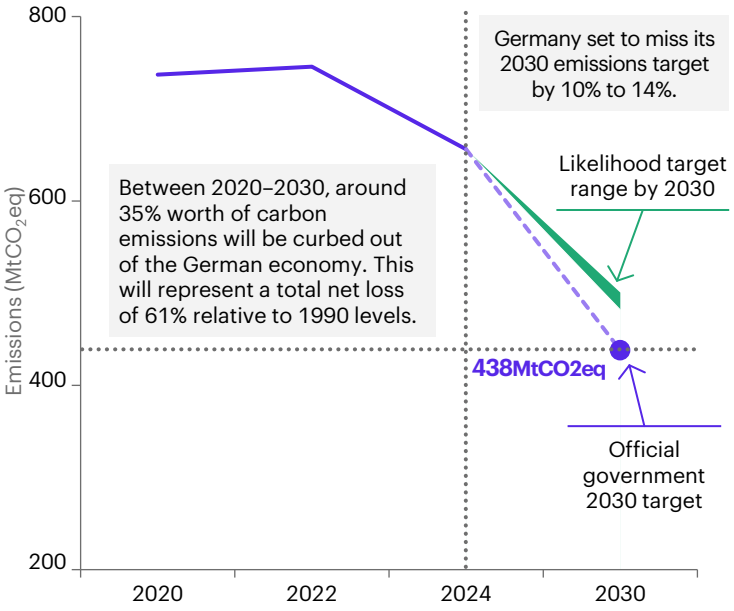
Europe is at risk of missing its 2030 climate emissions target, underpinned by increased political resistance, energy-security fears, geopolitical shifts, and the lack of adequate fiscal frameworks to rapidly deploy capital to fund transition strategies. According to the EU Effort Sharing Regulation 2024 report,[1] 12 EU countries are on track to miss their 2030 targets, with Germany and Italy being the largest defaulters—estimated to miss their targets by at least 10% and 7.7%, respectively (Figures 1–4).

1. 12 EU Countries Will Fail to Comply With 2030 National Climate Targets, New Study | Transport & Environment

Europe's dilemma between fossil fuels and transition goals

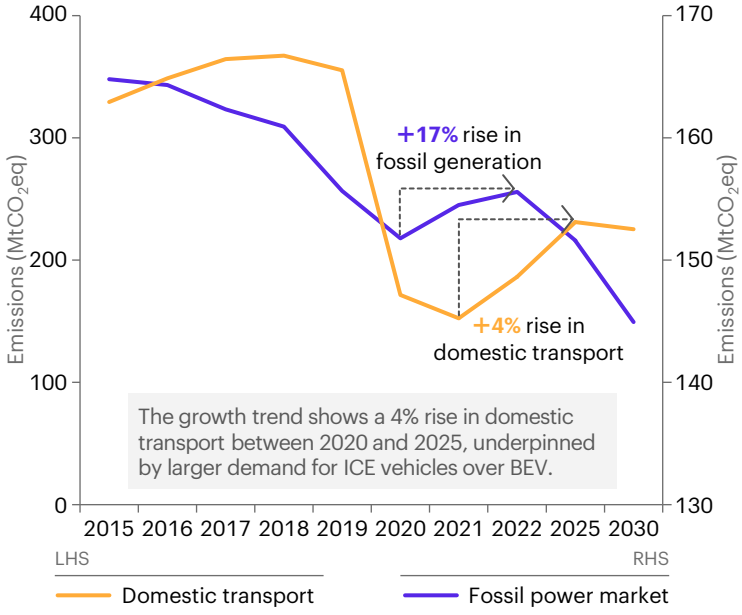
In the wake of the 2022 energy crisis triggered by the war in Ukraine, Germany, Italy, and other European countries temporarily reverted to coal and increased their fossil gases consumption to ensure energy security, undermining decarbonization efforts. Germany ended its gas import relationship with Russia, which represented around 50 billion cubic meters annually (around 60% of its total gas imports); secured LNG imports from other parties (that is, U.S., Norway, and Qatar); and restarted four retired coal-fired power plants[2] while shutting down its remaining 4-gigawatt nuclear power capacity.

FIGURE 1: GERMANY'S 2030 EMISSIONS TARGET



Sources: Analyzed by Allspring Global Investments. Data collected from the EU Federation for Transport & Environment, the IEA, and the EU Environmental Agency.

FIGURE 2: GERMANY'S KEY SECTOR FORECAST



Sources: Analyzed by Allspring Global Investments. Data collected from the EU Environmental Agency. Note: ICE stands for internal combustion engine and BEV stands for battery electric vehicles.

$MtCO_2$-eq = million metric tons of carbon dioxide equivalent. A carbon dioxide equivalent (CO_2-eq) is a metric unit used to compare the emissions from various greenhouse gases based on their global warming potential by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential.

These moves led to a series of negative-energy-related events in Germany. Electricity prices are volatile due to high reliance on intermittent renewable energy sources like solar and wind—which account for around 62% of Germany's electricity mix—combined with fluctuations in liquefied natural gas (LNG) prices and grid-balancing challenges. Germany lacks a reliable, cheap baseload power source. Currently, coal plants play a huge role in providing baseload power, but it is expensive to run coal plants over gas power or nuclear power because of coal plants' high carbon cost and high material cost—the cost of coal has risen around 28% since the start of the Ukraine war.

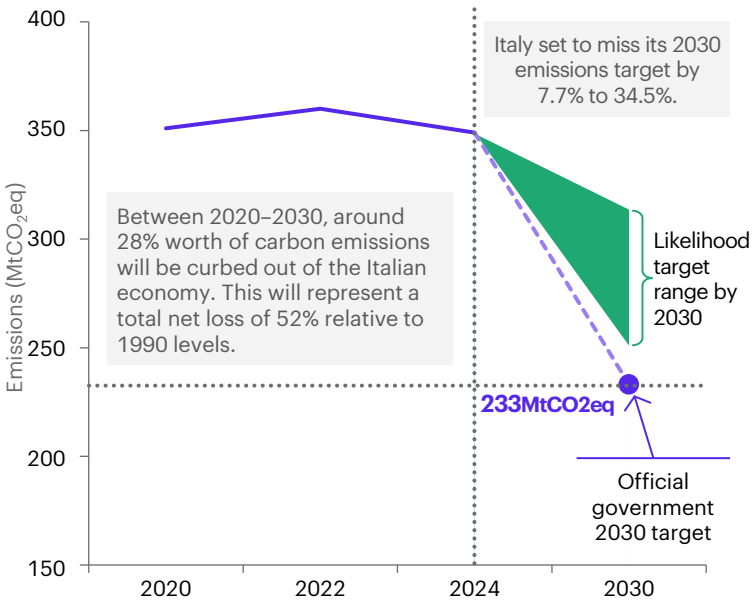
These challenges combined with the growing demand for electricity in the housing sector and an increased demand in the automotive sector—particularly for petrol gas and diesel vehicles (Figure 2 shows a 4% rise in domestic vehicle emissions since 2021)—provide the reasons why Germany is expected to miss its 2030 emissions target by 10–14% (Figure 1).

There is a similar situation in Italy, where Prime Minister Giorgia Meloni is less pragmatic about emissions targets and appears to take a more energy-focused approach that prioritizes the country's immediate energy needs over rapid decarbonization. Italy aims to become a key European gas hub by expanding its LNG infrastructure capacity in Livorno, Piombino, and Ravenna to enable future cross-border trade via gas pipelines. Domestically, Italy is on track to triple its regasification capacity from 16 to 48 billion cubic meters to support its transport and building sectors and meet cross-border electricity demand from neighbors, including Switzerland, France, Austria, and Slovenia.

2. 1) 690MW Mehrum, 2) 345MW Scholven, 3) 1.1 gigawatts (GW) Neurat C, and 4) Around 600MW Niederaussem E & F plants.

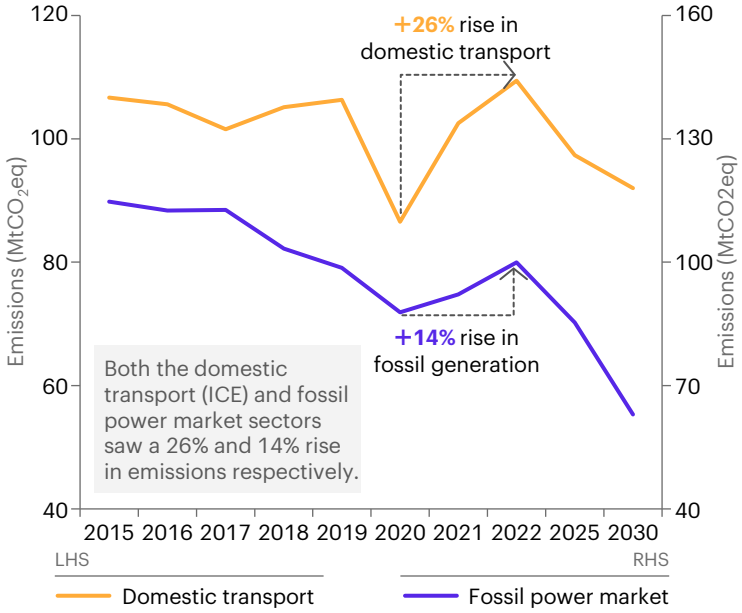
We therefore anticipate that Italy will miss its 2030 emissions target by 7.7–34.5% (Figures 3 and 4). While Italy's fossil fuel roll-back is expected to benefit long-term energy security, relying heavily on natural gas will increase net emissions, hindering long-term decarbonization goals.

FIGURE 3: ITALY'S 2030 EMISSIONS TARGET



Sources: Analyzed by Allspring Global Investments. Data collected from the EU Federation for Transport & Environment, the IEA, and the EU Environmental Agency.

FIGURE 4: ITALY'S KEY SECTOR FORECAST



Sources: Analyzed by Allspring Global Investments. Data collected from the EU Environmental Agency. Note: ICE stands for internal combustion engine and BEV stands for battery electric vehicles.

U.S. to push back on short-term emissions target

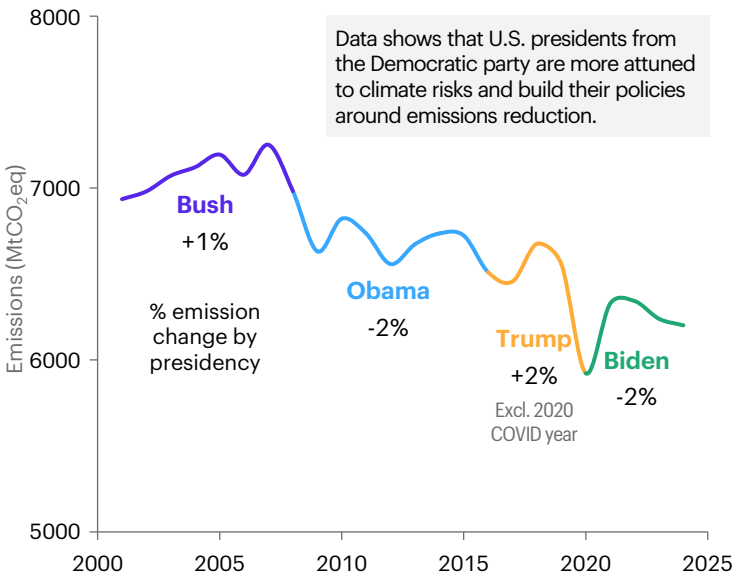
The new U.S. Trump administration is pushing back on short-term emissions targets, largely due to economic pressures. Increased focus on energy security and economic prosperity has prioritized affordability over decarbonization. Domestic political resistance and infrastructure gaps are also slowing progress, alongside the need to remain competitive with China in energy-intensive sectors such as artificial intelligence, data centers, electric vehicles, and nuclear power reemergence.

U.S. Democratic presidents have generally been more focused on reducing emissions due to their prioritization of climate change, alignment with international agreements, and support from voter bases. Our analysis in Figures 5 and 6 shows that the percentage reduction in emissions was higher under Presidents Obama and Biden compared with President Trump. However, to meet international demand, LNG exports increased under Biden's administration by a ratio of 3:1 over Trump's first term in office; Biden still achieved a sizable reduction in emissions thanks to the introduction of the Inflation Reduction Act of 2022, which was likely a key driver behind rapid decarbonization across sectors.

U.S. Republican presidents, on the other hand, often prioritize economic growth, energy independence, and deregulation, favoring fossil fuels over costly climate policies. In 2025, President Trump signed four key executive orders on his first day in office opposing climate-driven policies and reintroducing fossil-driven policies. He pulled the U.S. out of the Paris Agreement, reversed U.S. restriction on offshore drilling, ended the U.S. electric vehicle mandate, and paused offshore wind leasing.

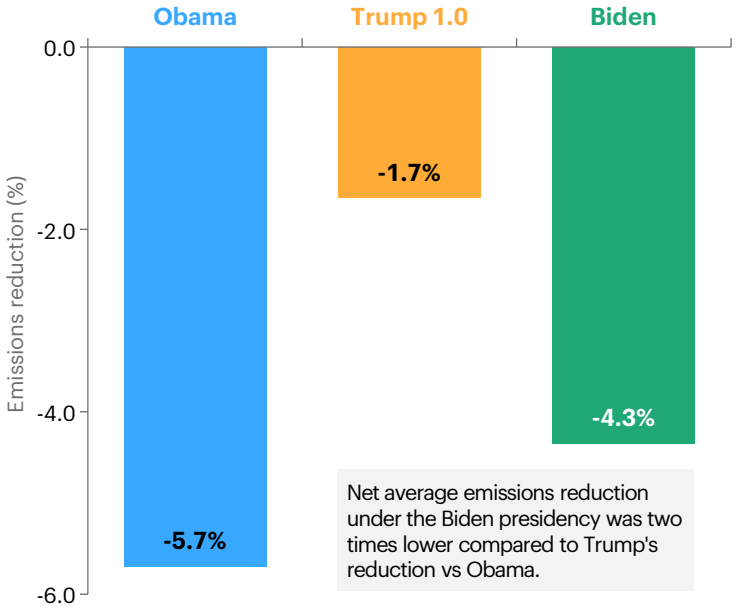
Climate investors face significant challenges in the U.S., where policy priorities on climate action can change dramatically with each administration. State-level initiatives and industry-led bipartisan support for clean energy are ways to navigate this risk. A handful of U.S. states (California, New York, Oregon, and Washington) have strong and consistent climate change policies and strategies less influenced by federal changes. Also, many U.S. corporations and financial institutions remain attuned to climate risk and continue to combat climate change, regardless of U.S. federal law.

FIGURE 5: U.S. HISTORIC EMISSIONS 2001–2024



Sources: Analyzed by Allspring Global Investments. Data collected from the U.S. Environmental Protection Agency.

FIGURE 6: NET AVERAGE EMISSIONS REDUCTION



Sources: Analyzed by Allspring Global Investments. Data collected from the U.S. Environmental Protection Agency. Note, this analysis excludes the 2020 COVID year. Note, Trump 1.0 represents President Trump's first term in office, and the emission change calculation excludes the COVID year of 2020.

What does this mean for climate transition strategies?

In our opinion, climate transition strategies should focus on risk-adjusted returns while balancing decarbonization efforts with energy security and economic resilience. Investors may prioritize long-term opportunities in renewable energy, smart grid infrastructures, energy storage, and other technologies like nuclear power that support the shift away from fossil fuels while being mindful of short-term volatility in energy markets, such as the fluctuations seen in natural gas and electricity prices.

Countries like Germany, the U.S., and Italy demonstrate the value of diversified strategies and offer potential investment opportunities to help balance long-term decarbonization goals with short-term energy-security shocks. We believe financial markets should therefore focus on diversified sectors with clear long-term decarbonization pathways, strongly supported by government policies and incentives and backed by technological innovation to ensure resilience against sudden market shifts, regulatory changes, or policies that backpedal on climate initiatives.

Is net zero a dream or a future reality?

We believe net zero by 2050 remains a challenging but achievable reality, provided countries address the contradictions in their energy strategies. Success will depend on balancing short-term energy security with long-term decarbonization goals through decisive action and global cooperation. Climate investors often adopt a long-term investment strategy because the transition to a low-carbon economy is seen as inevitable.

Although most short-term emission goals set by countries like Germany and Italy appear to be unattainable due to geopolitical shifts, long-term emission targets may still be achieved because they are being assisted by technological advancements, the falling costs of renewables, and the growing demand for more sustainable practices. So, even if governments change their policies—as seen in the U.S.—the underlying economics of clean energy should continue to improve, making these investments resilient in the long run.

Growing awareness of climate-related risks, particularly physical risks such as flooding, wildfires, and hurricanes, will likely make long-term climate investments more desirable to investors who often increasingly incorporate these risk factors and other environmental, social, and governance risk factors into their portfolios. This long-term approach may help mitigate the risks posed by short-term political uncertainties. Political change can cause temporary volatility, but the broader global alignment toward decarbonization is likely to mean that climate-focused investments remain attractive.

For further information

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