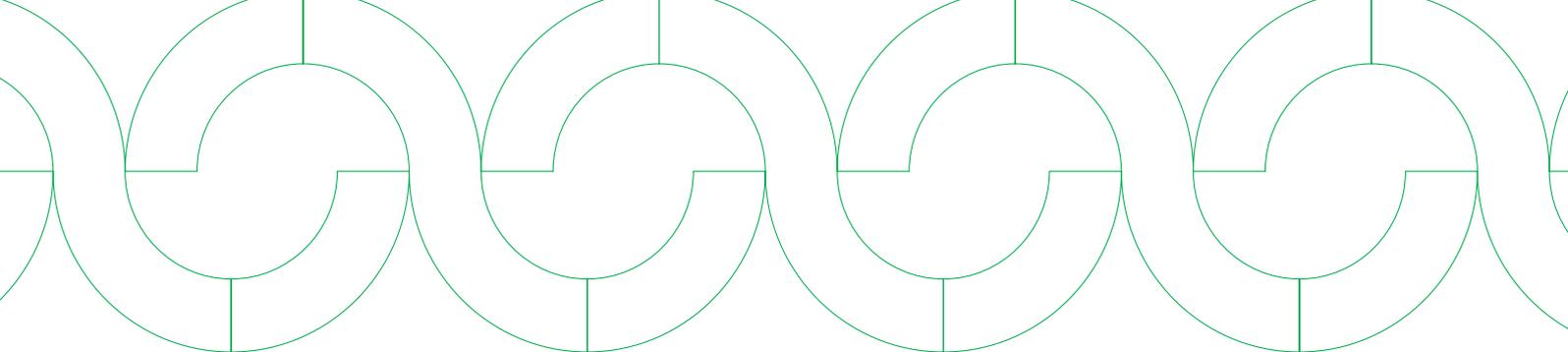




Germany to reset government support for renewables. *Can CfDs restore investor confidence in its offshore wind market?*

Germany's proposed reset of its renewable energy support framework aims to promote a more appealing investment environment in 2026, particularly for offshore wind. The government has signalled the phase-out of legacy fixed-price subsidies and a move toward market-oriented support mechanisms, most notably Contracts for Difference (CfDs). Separately, the Federal Ministry for Economic Affairs and Energy has announced a shift to CfDs for the country's offshore wind auctions.

The key question is whether the proposed changes will be implemented in a way and on a timeline that sufficiently builds investor confidence, particularly given competition from neighbouring countries for low carbon investment. This is particularly key for Germany's offshore wind market which, after a difficult 2025, faces further undercapacity in its project pipeline until a redesigned auction process is implemented. With government targets and associated supply chains at risk, we look at the implications of the proposals for the German offshore wind market and consider the overarching changes required to implement the wider reset in support of renewables.



The government's shift has been framed, *inter alia*, within a broader ten-point plan, “**Becoming climate neutral – staying competitive**” (“Plan”), which was launched in September 2025 alongside a **high-profile “reality check”** of the German energy transition (*Energiewende*). This noted “glaring gaps” in existing future scenarios. The Plan seeks to rebalance affordability, system reliability and competitiveness, while maintaining Germany’s headline target of 80% renewables in gross electricity consumption by 2030.

Actioning the Plan holds significant implications for the *Energiewende* across many fronts. These include the government seeking to geographically coordinate the rollout of new renewable generation, as well as battery energy storage and hydrogen electrolyzers, and thereby to optimize the (slower than ideal) ongoing progress of grid expansion.

Impact on the German offshore market

The course correction on offshore wind, still a crucial part of the *Energiewende*, has been accelerated by negative 2025 market developments in Germany. These sit alongside similar challenges faced by much of Europe, including rising costs, interest rate pressures and supply chain bottlenecks. And there is not much time for Germany to implement changes, with anticipated auction capacity for 2026 being cut back while its overall offshore ambitions remain substantial. Its goal is to triple the roughly 9–11GW installed or under construction to 30GW by 2031, increasing to 40GW by 2035.

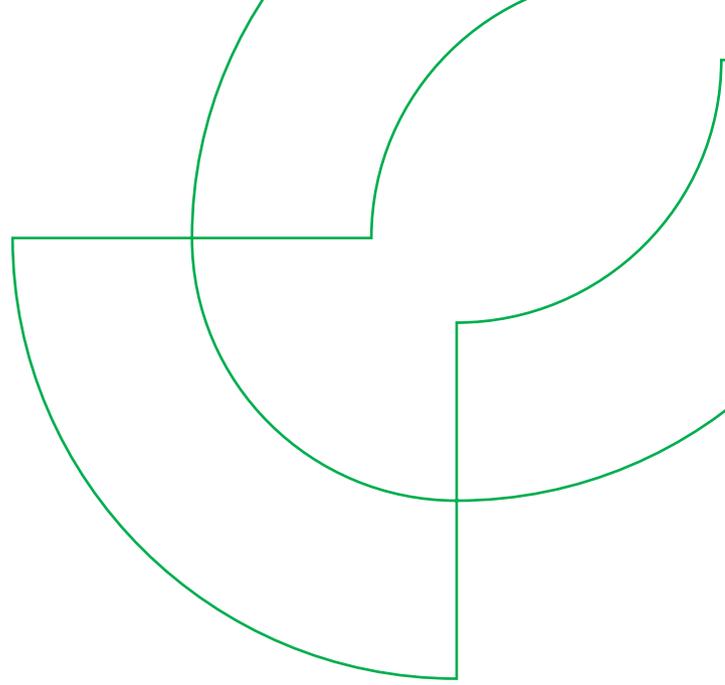
Last August, Germany’s offshore wind tender for two centrally “pre-examined” North Sea sites (2.5GW combined) received no bids, highlighting investment risks posed by the existing regime of uncapped negative bidding, grid connection delays and potential losses from “wake effects” due to the dense concentration of wind farms in the German area of the North Sea. And earlier 2025 auctions, while successful, were characterized by a declining number of bids and bid values. In response, the Federal Ministry for Economic Affairs and Energy announced the move to CfDs for 2026’s offshore auctions, and Economy Minister Katherina Reiche acknowledged the need to align Germany’s approach more closely with proven European models.

CfDs are already used in several major and strategic offshore markets, including the UK, France, Belgium and Poland. Market participants are familiar with CfD mechanics, and appropriate structuring has proven to boost investment interest.

CfDs provide long-term revenue certainty through a guaranteed strike price, with upside sharing via payback to the government counterparty when market prices exceed the strike price. For developers and lenders, this assists stabilising cash flow and typically reduces the cost of capital, improving bankability and supporting financing at scale. Some analysis suggests CfDs can substantially lower generation costs, foundational for competitive electricity pricing for consumers and industry.

Replacing uncapped negative bidding may also ease the burden of high seabed payments that have compounded difficult project economics. Well-designed CfD auctions may engage developers who stepped back in 2025, particularly for sites where risk was perceived as elevated due to deeper waters or grid uncertainties.

The German offshore wind sector appears in general to have welcomed CfDs. Additionally, the Offshore Wind Energy Act (the *WindSeeG*) was **amended by the Bundestag** at the beginning of December to provide for implementation of the EU Renewable Energy Directive in relation to offshore wind, as well as other changes aimed at addressing investor hesitancy, such as longer project implementation periods to allow greater flexibility. Many stakeholders want to see more though, arguing that the scheduled February 2026 auction should be postponed until the end of 2026 to give developers more time to prepare their bids. Late last year, ministers from Germany’s coastal states supported industry calls to postpone the country’s 2026 offshore auctions entirely until the redesign.



Are CfDs the answer for German offshore wind?

However Germany's auction timing plays out, valuable lessons can be learnt from other European markets. CfDs are not a guaranteed cure-all. The UK's 2023 AR5 auction attracted no bids due to low ceiling prices, showing the need for realistic strike prices and inflation adjustments. Later changes in 2024 improved competition, but issues like project cancellations stemming from supply chain pressures and financing challenges remained. The UK further adjusted auction parameters for its 2025/2026 AR7 auction, aiming to boost participation by permitting bids from projects without environmental permits. The recently announced record-breaking 8.4GW of offshore wind secured amidst a highly competitive auction looks to have justified the changes, although there is a risk of capacity gaps if winning projects don't ultimately proceed. Despite record auction budgets,

however, concerns remain whether increased competition will deliver the targeted capacity and lower costs, having regard to the continuing delivery and potential funding challenges facing European projects.

Germany's success depends on precise auction design, clear delivery rules, effective penalties, and supporting measures such as timely grid connections and balanced development to minimise wake losses. This requires new auction parameters, robust delivery obligations and performance security, and careful calibration of price caps to reflect cost inflation, financing conditions and supply chain constraints. Award criteria and risk allocation will also need to be revisited to restore participation.

How do offshore wind markets in neighbouring countries compare?

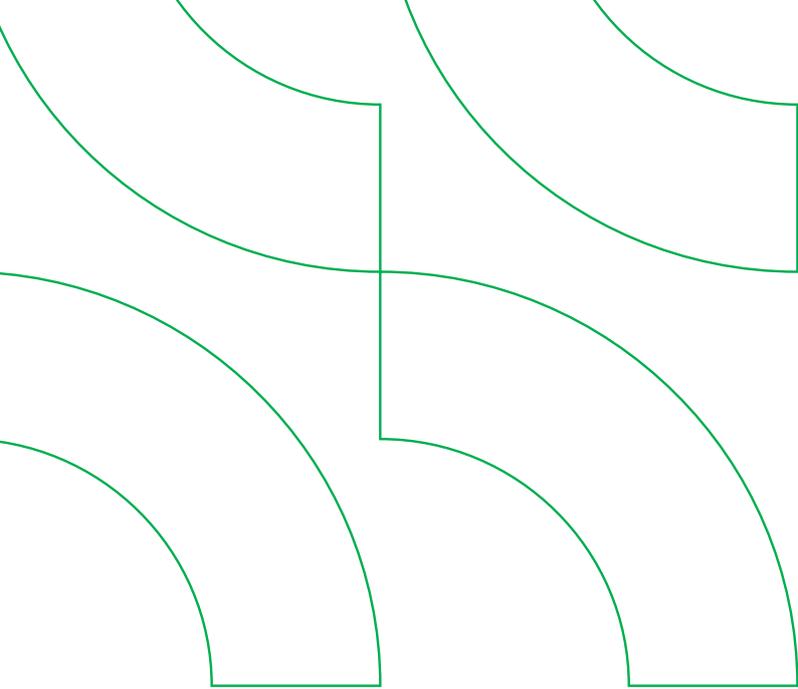
Germany is not alone in Europe in moving to participate in the CfD "club"—both Denmark and the Netherlands, for example, have announced plans after experiencing recent challenges in their own offshore auctions. Recent EU legislation also plays a part, as discussed below.

In Denmark's 2024 auction for 3GW, no bids were received, which has been attributed to market conditions and its negative bidding auction design. The Danish government subsequently stated that future tenders for three sites totaling 3GW will incorporate CfDs.

In September, the Dutch government introduced an [Offshore Wind Energy Action Plan](#) that included provisions for subsidies and outlined steps to prepare legislation

enabling CfDs by 2027. Recently, the tender for the 1GW Nederwiek project in the North Sea received no proposals, increasing the drumbeat for reforms to the Dutch offshore sector. Its government is also exploring the development of a guarantee fund to support power purchase agreements to boost investment.

Denmark and the Netherlands face many of the same challenges as Germany in reforming their auction designs, including whether such changes can be made while minimising disruption to planned auction timetables. While a more consistent European approach is likely to be welcome to potential investors, the move to CfDs will inevitably put more pressure on countries still relying on negative bidding to achieve their offshore goals.



Implementing the Plan into legislation

Core themes of Germany's Plan include scrapping fixed feed-in tariffs, synchronising renewables deployment with grid expansion and flexibility and introducing a technology-open capacity market. These sit alongside accelerating digitalisation (such as the use of smart meters), maintaining uniform and liquid energy markets, rationalising subsidies and “pragmatically” enabling hydrogen and carbon capture and storage (CCS). Together, these measures are intended to stabilise energy costs, de-risk investment and ensure that climate neutrality is pursued with “economic realism”.

A key backdrop is EU law regulating state aid. Under the [EU Electricity Market Regulation](#), from July 2027, new renewable energy generation receiving state-backed price support must use “two-way” CfDs or equivalent schemes with clawback features. Germany's current market premium regime under the Renewable Energies Act (*Erneuerbare Energien Gesetz—EEG*), which functions as a floor price with upside exposure, needs to be overhauled in any event.

The *EEG* will need a comprehensive reform to retire fixed-price support for new generation projects and introduce a new regime. This includes establishing strike prices, reference market values and clawback mechanisms and ending remuneration during negative price periods. Reforms should also address storage integration—moving beyond the current narrow eligibility for storage co-located with renewables—to unlock flexibility and demand-oriented feed-in, consistent with the government's electricity storage strategy.

Amending the *EEG* isn't novel, with support schemes for renewables changing continuously over the last 20 years. Changes have generally been fine-tuning though, adopted only following lengthy discussion periods and generally avoiding retroactive impacts, consistent with domestic constitutional principles. The timeline of this revision may be different, however, given the urgency and extent of the changes. And while the government is new, a 2024 paper “[Electricity market design of the future](#)” published by the Federal Ministry for Economic Affairs and Climate Action, already sets out four options for reformed support which could be adopted. Unlike the current *EEG*, all these options include a repayment mechanism in addition to a subsidy component. Initially, the intention was to present an amendment to the *EEG* at the beginning of 2026. However, steps required for the preparation of the amendments were only initiated at the end of 2025 with a longer-term schedule envisaged. Comprehensive reform is therefore unlikely to be implemented before 2027.

These amendments do not include those required to implement other aspects of the Plan, such as proposed changes to the capacity market, likely requiring amendments to the Energy Industry Act (the *EnWG*) and associated regulations. Grid and demand flexibility measures, reforms to hydrogen and CCS frameworks and other matters will also have to wait.

We expect the reform package will need to be accompanied by state aid notifications to the EU Commission for the new CfD regime and capacity market changes.

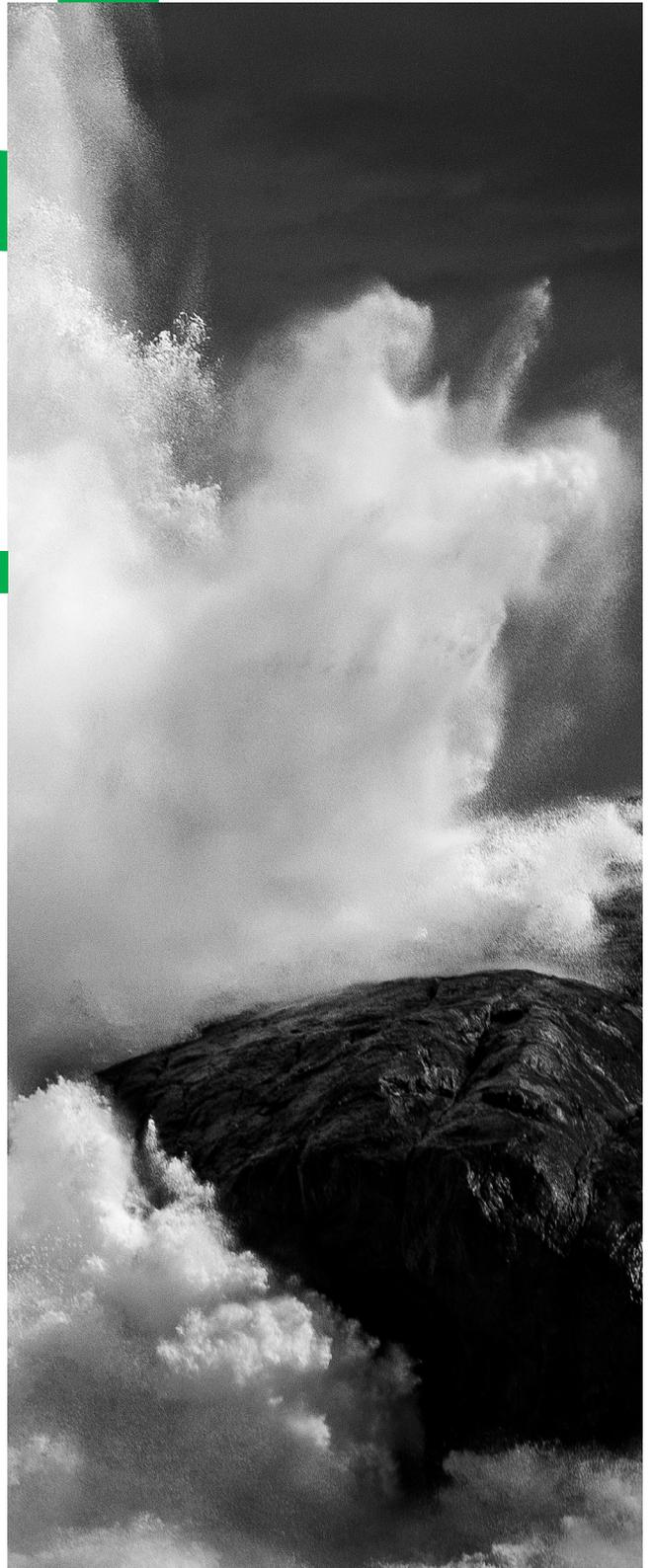


Next steps

Much lies in the eventual details, but Germany's Plan aligns with approaches taken by other European countries drawing on lessons from their own energy transitions. What drives investment are predictable support and regulatory regimes and a solid business case, particularly for less mature technologies like hydrogen and CCS. Whether a stronger renewables investment environment can be achieved with "economic realism" remains to be seen. Delivering the reset will require coordinated legislative and regulatory amendments across Germany's energy framework, underpinned by state aid clearance and alignment with EU rules.

The potential for offshore wind is substantial, but the next 12 months will be decisive: the pace and clarity of legislative changes and development planning, the precise details of the first CfD tenders, and the nature of supportive capacity market and power grid measures will determine whether Germany can rise again as a leading competitive offshore market.

We will continue to monitor developments in Germany and across Europe as proposed changes are implemented and the implication of the UK's AR7 auction are assessed. In the interim, please reach out to your usual A&O Shearman contact for further discussion, or the named contacts listed in this bulletin.





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