Europe in Orbit

From Fragmentation to Scale in the European Space Ecosystem

DECEMBER 2025

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ABSTRACT

Europe's space sector remains a critical enabler of economic competitiveness, security and strategic autonomy. However, its performance is increasingly constrained by fragmentation across governance structures, industrial organisation and financial markets. These weaknesses are structural rather than cyclical and cannot be addressed through incremental funding alone. The next EU policy and budget cycle offers a narrow but decisive window to improve effectiveness without reopening destabilising institutional redesigns.

On governance, the priority is execution. The paper argues for strengthening coordination within the existing framework by reactivating the Space Council as an operational body with regular meetings and clear follow-through. Emerging defence-oriented initiatives, notably the European Resilience for Space, should be used as practical pilots to integrate defence requirements into civilian space governance and to test scalable coordination models between the EU, ESA and participating Member States.

On industry, European space manufacturers face shrinking margins, changing demand patterns and intensified global competition. Large groups are restructuring to regain scale, while SMEs and start-ups need more support to move beyond the prototype phase. The paper calls for simplified and faster procurement, particularly for dual-use technologies, alongside stable institutional demand and sustained policy support for Europe's autonomous access to space. Continuous investment in upstream R&D remains essential to preserve long-term technological leadership.

On finance, the paper identifies fragmented capital markets and shallow private risk capital as a central constraint on scale. It proposes targeted measures aligned with the Savings and Investment Union, including the creation of an EU-level deep-tech market segment and the development of standardised, decision-grade metrics to assess space technologies and investment risk.

Together, these actions offer a realistic pathway to reduce fragmentation, improve execution and move Europe's space sector from structural weakness to sustainable scale within the next policy cycle.

1. Introduction

The European space sector is widely recognised as a strategic, dual-use domain that underpins a modern/technologically advanced society and its security.

Yet while the European Union still commands exceptional assets, world-class agencies, and an industrial base capable of delivering end-to-end systems, three main issues/challenges are of increasing importance:

- **eroding competitiveness** of the European space sector,
- **insufficient strategic autonomy** (including defence aspects),
- the growing **urgency** to address these challenges due to the uncertainty of the global geo-political scenarios and alliances.

These three aspects have been extensively addressed by the Letta, Draghi and Niinisto Report and several actions have been put in place since, at the level of European institutions, member States and industry.

Taking stock of the status quo and the criticalities underlined, the purpose of this paper is to propose a short list of actionable measures that can be implemented within the next EU policy and budget cycle.

These measures shall address three main, interlocking areas:

- **Governance**, where institutional fragmentation and misaligned roles between the EU, ESA, and the Member States produces inefficiencies of the system.
- **Industry**, as the profitability of space systems developers and manufacturers is under pressure for both large groups - which concentrate the majority of industrial capabilities - and SMEs and start-ups that struggle to scale into robust mid-sized companies.
- **Finance**, hampered by the shallow and episodic nature of private risk capital, and the absence of robust instruments to attract non-specialist investors at scale.

2. Governance

Europe's space governance rests on multiple pillars:

- At EU level, the European Commission sets policy, oversees the EU Space Programme and associated funding, delegating most of its development activities to ESA; it is increasingly involved in R&D and market-shaping, acting through Union bodies and agencies such as EUSPA and EDA.
- ESA develops space programs, systems – including launchers - and technology for its member States through dedicated funding as well as for the EU.
- National space agencies retain national programme authority, budgets and industrial policy instruments, often with their own strategic priorities.

This multiplicity offers diversity and flexibility, but too often it also produces overlaps, blurred accountabilities and slow execution, i.e. an environment where existing strategies, policies and regulations fall out of step with the competitive and geopolitical context.

A revision of the European Space governance has been debated since the introduction of space as a shared competence between the EU and its member States in 2009; with the increase of the importance of space for our society, its economy and security, an optimization of the European space governance has become even more relevant. However, **the current moment calls for urgent actions, and it is therefore ill-suited to reopen the debate on a completely renewed governance model** which would risk causing institutional paralysis. The priority should instead be to improve **the effectiveness of the existing governance and ensure the representation of the defence instances within current system**.

In this context, a concrete, immediately actionable step is to **reactivate the Space Council and reinforce its supporting structures**. Meeting at an operational cadence (three to four times per year), the Space Council should set space policy priorities and ensure follow-through. By bringing together the EU and the European Space Agency (ESA), the Space Council also offers an enlarged platform that includes non-EU members of the wider European space community, notably the UK, Norway and Switzerland.

Europe's strong and growing drive to develop more European space-based defence capabilities was confirmed by ESA member States support to the European Resilience for Space (ERS) initiative proposed by ESA at CM25, a precursor and accelerator of the EU Earth Observation Governmental Services (EOGS). **The realisation of the ERS initiative should be used as an advanced pilot for ESA to define – with the EU - an appropriate governance method that integrates the Defence instances of the participating States, to be scaled up to all EU member States**.

Finally, **the longer-term objective to resolve the complexities of the current European Space governance should also be addressed at the highest political level, including at the upcoming European Space Summit 2026** announced by the French President Emanuel Macron.

3. Industry

The European space industry, especially large firms and SMEs, is under pressure as traditional customers push for lower prices and new entrants intensify competition.

The sector is also being reshaped by a drop in demand for large geostationary satellites, once a stronghold for Europe in both satellites and launches, resulting in reduced profit margins and harsh conditions for much of the industry.

At the same time, **space is becoming increasingly relevant for the defence sector, and the corresponding European institutional funding is substantially increasing**: the announcement made by Germany in September 2025 that they will invest €35 billion in space for defence by 2030, the space for defence chapter of the EU's Defense Readiness Roadmap 2030 communicated in October 2025, or the priorities and funding set at the ESA meeting at ministerial level of November 2025, with the kick off of ERS, are clear examples of this important trend.

In response to these new scenarios, **European large groups (which represent 60% of Europe's industrial capabilities) are taking action**: the planned joint-venture "Bromo" between Airbus, Thales and Leonardo combining large parts of their space activities into one unified company is a clear response to both – the market pressure, and the defence demand. **And the European launchers sector is moving**: while Europe's "work horses" Ariane6 and Vega-C continue to guarantee Europe's independent access to space, at CM25 ESA member States have agreed to an unprecedented investment not only in an increase of their launch cadence, but also in an increase of the number of European launchers vectors and reusable launchers systems.

In this dynamic context, the following actions are proposed:

- **Simplification of regulation and procurement processes, in particular in support of SMEs and start-ups that do not have the administrative capacity to navigate complex procedures**. A more agile and proportionate regulatory environment is essential to allow smaller actors to participate meaningfully in institutional programmes. This includes faster procurement actions, streamlining documentation requirements, shortening evaluation cycles, and enabling phased or modular contracting so that companies can demonstrate capabilities progressively.
- **Ensure the availability of adequate policies and financial support to the European launchers sector, strengthening Europe's competitive and autonomous access to space**. Recent political signals and actions have highlighted that strengthening Europe's launch capabilities is a strategic priority, both for civil and defence purposes. Sustained policy commitment and long-term financial instruments are required to this extent, including stable institutional anchor demand, and targeted support for emerging launch companies and launch sites. Access to space must remain at the core of the next policy cycle.

- **Continuous, increased support to R&D and technological innovation**. In a context where defence imperatives, launcher programmes, and the urgent demand of new services risk overshadowing long-term technological development, it is essential that institutions maintain a strong commitment to R&D. This means protecting and expanding funding for space research, disruptive technologies, and advanced manufacturing, while ensuring close coordination between civil, commercial, and defence innovation pathways. Europe's competitiveness ultimately depends on its technological leadership: without a sustained pipeline of innovation - from materials and propulsion to in-orbit services, AI-enabled space systems and secure communications - the continent will struggle to remain at the frontier of a rapidly evolving global space sector.

4. Finance

The space sector funding is primarily channelled through public budgets and, in Europe, public spending in space is approximately three times smaller than in the US.

Capital markets are fragmented, reflecting the broader fragmentation of the EU financial landscape. **Market depth and liquidity remain limited**, and initial public offering (IPO) pathways are divided across national exchanges and poorly suited to deep-tech business models characterised by high research and development (R&D) intensity and lengthy development cycles. **Private risk capital remains shallow and sporadic**: specialist funds are small and dispersed, generalist investors have limited entry points, and non-dilutive instruments for scaling up are inconsistent.

This financial fragmentation in the space sector is, in fact, a direct consequence of the wider fragmentation of the EU Single Market. Accordingly, the most effective response is to build a Savings and Investment Union (SIU), as suggested by the Letta Report and advanced by the European Commission. The SIU helps channel EU savings into productive investment expanding financial opportunities for people and businesses.

To address the structural weaknesses of Europe's financial environment for space, a set of targeted, immediately actionable measures is proposed:

- **Establish, within the framework of the Savings and Investment Union, an EU Stock Exchange for Deep Tech**. A specialised market segment dedicated to deep-tech and capital-intensive sectors such as space would provide companies with a coherent, EU-wide listing pathway. By aggregating liquidity and visibility at European scale, this initiative would help overcome the fragmentation of national exchanges, offer late-stage firms a realistic route to public markets, and attract institutional and international investors who currently lack suitable entry points into the European deep-tech landscape.
- **Facilitate the creation of a dedicated Deep Tech market with tailored listing rules and EU-level supervision**. Such a market should include simplified disclosure requirements adapted to companies with long technology cycles, revenue lags, and high R&D intensity. A proportionate supervisory framework - operating at EU level - would ensure consistent standards, reduce regulatory arbitrage across Member States, and enhance investor trust. By lowering the administrative and compliance barriers that disproportionately affect deep-tech firms, Europe can enable space companies to scale domestically rather than seek capital abroad.
- **Develop clear, standardised, and decision-grade metrics for assessing space-related technologies and investment risks**. The absence of comparable indicators for technology readiness, deployment risk, dual-use potential, and long-term value creation makes it difficult for non-specialist investors to evaluate opportunities in the space sector. Standardising such metrics would reduce information asymmetries, improve due diligence processes, and enable more efficient capital allocation across the ecosystem.

To this end, it is proposed to **establish a European process for the definition of core indicators**, under the leadership of the European Commission, in coordination with ESA and national space agencies. The process should involve industry representatives, financial institutions, independent experts, and standard-setting bodies to ensure both technical robustness and market credibility. The resulting indicators should be anchored in a transparent governance framework and validated through an assurance mechanism that guarantees consistency across Member States. Existing multi-stakeholder models - already applied successfully in other strategic sectors - offer practical templates that can be adapted for this purpose.

Together, these measures would contribute to reducing Europe's structural investment gap in space, improve investor confidence, and begin to build the financial depth required for a competitive and resilient European space ecosystem.

5. Conclusions

Europe's position in space is strong, but no longer assured.

Governance fragmentation, industrial pressure, and limited financial depth risk undermining the continent's strategic autonomy and competitiveness at a moment of accelerating global change. The measures proposed in this paper offer practical, immediately actionable steps to strengthen coordination, support industrial capacity, and unlock the investment needed for long-term resilience. Acting now—within the next EU policy and budget cycle—is essential to ensure that Europe remains a capable, competitive and strategically autonomous space power.

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