Slow countdown for European space merger

Continent's hopes of forging new champion to compete in sector dominated by Musk's SpaceX face many challenges

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Airbus, Thales and Leonardo's hopes of forging a new European space champion face a nearly three-year wait, raising questions over the continent's ability to compete in a rapidly evolving sector upended by Elon Musk's SpaceX.

Talks between the European aerospace group and the French and Italian companies started last year about merging their space operations into a jointly held company spanning satellite making, space systems and services. They estimate the combination would have revenues of about €5bn a year, according to a recent French parliamentary report.

But several people close to the talks told the Financial Times that if agreement was reached by the end of this year, regulatory and political scrutiny meant the combination was unlikely to launch before 2028.

The timeline will frustrate the companies, whose executives are hoping for rapid approval if they finally agree on the scope of the new company, along with any disposals to address competition concerns.

The planned merger will attract intense scrutiny. Touching on issues of sovereignty in a domain increasingly vital to defence, it also raises questions over competition, technological prowess and more than 20,000 jobs that could be affected in France, Germany, Italy, the UK and beyond.

A combination could also face opposition in Germany, where some in the industry fear local jobs could be affected should the combination of Thales and Airbus's space businesses create a French monopoly on key technologies.

Meanwhile, the French parliamentary report, published in May, urged politicians to oppose the merger if it created stronger competitors in Germany as a result of forced disposals.

"This isn't going to happen tomorrow," said another person with knowledge of the talks. "There may be agreement between the companies but after that the countries have to agree."

The proposals come as Europe's space industry struggles to adapt to the revolution in satellite demand caused by the rapid expansion of SpaceX's Starlink.

European manufacturers have long depended on commercial and export markets to make up for a shortfall in government spending relative to American rivals. Industry research group Novaspace estimates that public expenditure on space in the EU came to about $13bn in 2023, against $73bn in the US.

While the three companies' space businesses make a range of satellites, systems and instruments for the commercial, civil and military markets, they have all been hit by a sharp decline in demand for traditional geostationary telecom satellites, which sit 36,000km above Earth.

Geo operators were already facing a waning need for services such as satellite television broadcasting. But as Musk rolled out high-speed broadband from low Earth orbit — up to 2,000km above Earth — their connectivity markets also came under threat.

Starlink, now serving more than 5mn customers, is moving aggressively into aviation, maritime and government segments. Even France this year bought Starlink terminals to send to residents of Mayotte after Cyclone Chido disrupted communications. Reflecting this shift, only four commercial contracts to put geo satellites in space were awarded worldwide in 2024 — the lowest in 20 years.

The decline has hit Europe's space industry hard. Airbus has taken more than €2bn in charges from underperforming space contracts since 2023 and last year announced 2,000 job cuts.

SpaceX's Starship Flight 8 takes off. Thales, Airbus and Leonardo hope to create a rival group with revenues of about €5bn a year — Alex Wheeler/FT montage/AFP/Getty

Airbus and TAS facilities in Europe

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Thales Alenia Space (TAS), a joint venture 67 per cent owned by Thales and 33 per cent by Leonardo, has announced almost 1,300 job losses in the past two years.

Musk came "close to destroying the European space industry", said Sash Tusa, analyst at Agency Partners.

Given the challenges, several executives told the FT that three years was too long to wait to implement a merger, while SpaceX continues to innovate at a pace they cannot match.

A combination should deliver not just reduced costs, said one industry analyst, but "a new way of working" that allowed for faster innovation to enable operators to compete with Starlink.

"It should not only be about the product that you are selling and designing, but the way they are making it. How can we make it cheaper, faster," said Maxime Puteaux, principal at Novaspace.

Airbus has argued that the rising importance of space as a key defence and security capability requires faster action to guarantee a sustainable industrial base, according to people familiar with the group's position. All parties insist the discussions remain fluid, with no firm decision reached on the scope of the new enterprise, and are keenly aware that there will be concerns.

Germany in particular is worried about the impact on jobs and on OHB, Europe's third satellite manufacturer, whose partnership with TAS could suffer if a consolidated group shifted more work to Airbus's German operations.

Marco Fuchs, OHB chief executive, said the merger made no sense at a time when European space spending is poised to increase dramatically for the first time in years, with both the EU's €800mn defence fund and Germany expected to substantially boost funding.

"Typically, industries merge when they're in trouble," he said. "So it is strange to see why they perceive themselves so much in trouble . . . There is money in the system."

Satellite customers have also expressed concern at the prospect of reduced competition in both manufacturing and services. Several also voiced concern about the consequences for Europe's Iris2 satellite broadband project, which will require operators to use European suppliers. Fewer competitors could mean higher procurement costs, two industry insiders said.

Recognising the sensitivities, Airbus chief executive Guillaume Faury described the merger project as "a work in progress" at the company's first-quarter results in April. But the potential partners had already begun "engaging with stakeholders and explaining what the project would look like, the rationale, what the benefits would be for ourselves but also for the many customers and potential stakeholders".

One such stakeholder said the companies had indicated they would not need to make big job cuts and that the plan was to "maintain all activities in all countries. There will be no specialisation, at least in the first phase."

Airbus, Thales and Leonardo declined to comment, but analysts said such an approach, if confirmed, undermined the argument for a merger.

"If you are keeping all the industrial capabilities, then the savings are in the back office. That won't be anywhere near sufficient," said Carissa Christensen, chief executive of space consultancy BryceTech.

Yet an executive familiar with MBDA, the missile maker owned by Airbus,

> 'It is strange to see why they perceive themselves so much in trouble. There is money in the system'

Leonardo and the UK's BAE Systems that is often cited as a model for the new enterprise, said the compromise made sense in an industry as sensitive, strategic and reliant on defence customers as space. They added that despite MBDA's success, "this has been a long process".

MBDA had driven "co-operation between countries", the executive said, by eliminating as much duplication as possible with each successive programme. "If you merge too quickly, there is a question of losing competence. You can't be completely integrated given each country's need for sovereignty."

The question for a new European space company would be how it would affect competitiveness in the commercial market, where the ambition should be to cut out duplication to generate savings. But Europe's future in space could depend on having a robust industrial base. "It will be very long and difficult but it has to be done," the MBDA veteran said.