



## BRIEFING PAPER

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# The UK's contribution to the EU Budget

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**Inside:**

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2. The UK's rebate
3. UK payments to the EU after Brexit



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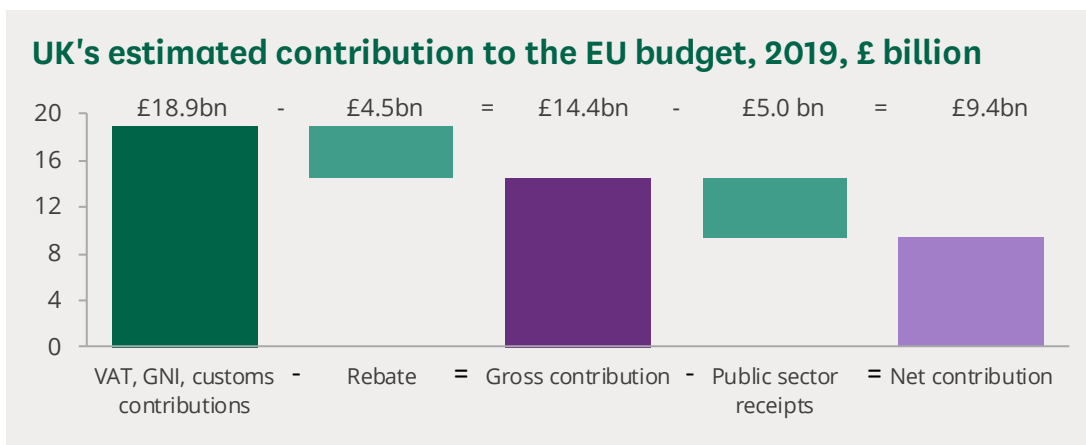
## Summary

### The UK's contribution to the EU budget

2019 was the last full year in which the UK was a member of the European Union (EU). As a member of the EU the UK made payments, or contributions, to the EU budget. The UK also received funding, or receipts, from the EU for various agricultural, social, economic development and competitiveness programmes.

The UK received a rebate from the EU which reduced its contribution. The rebate aimed to correct the issue of the UK making relatively large net contributions to the EU.

In 2019 the UK made an estimated gross contribution (after the rebate) of £14.4 billion. The UK received £5.0 billion of public sector receipts from the EU, so the UK's net public sector contribution to the EU was an estimated £9.4 billion.



There are different ways to measure the funds the UK received from the EU. The above figure of £5.0 billion includes only funding allocated to UK government to manage. However, the European Commission also allocates funding directly to UK organisations, often following a competitive process. In recent years these funds have been worth around £1 billion - £2 billion to the UK. Accounting for these receipts results in the UK making an average net contribution of £7.7 billion between 2014 and 2018.

### Brexit and the UK's contribution

#### *A financial settlement for the UK's withdrawal*

The UK and EU have some outstanding financial obligations to each other that they are settling through a 'financial settlement'. The obligations arise out of the UK's participation in the EU budget and broader aspects of its EU membership.

The financial settlement sets out the financial commitments that will be covered, the methodology for calculating the UK's share and the payment schedule. The Office for Budget Responsibility (OBR) estimate that the settlement may cost the UK around £33 billion once the final payment is made, possibly in the 2060s. The cost is uncertain.

More detail is available in the Library briefing [Brexit: the financial settlement](#).

#### *Payments after leaving*

The UK is participating in some EU programmes from January 2021 as a 'third country'. The UK will make a financial contribution to participate in such programmes including [Horizon Europe](#), which is the EU's research and innovation programme.

This briefing focuses on the UK's involvement with the EU budget. The Library briefing [A guide to the EU budget](#) discusses how the EU raises and spends money.

**The net contribution doesn't measure the overall economic benefit/cost of EU membership**

The UK's net contribution shouldn't be confused with an assessment of the overall economic benefit, or cost, to the UK of EU membership. The net contribution simply looks at the direct flows of contributions to the EU Budget from the UK and spending, or receipts, from the EU to the UK. It doesn't, for instance, consider benefits to UK businesses from being in the EU's single market. A number of bodies have attempted an economic cost-benefit analysis of the UK's EU membership, some of which are discussed in section 6 of the Library's briefing [In brief: UK-EU economic relations](#).

The Library briefing paper [Brexit deal: Economic analyses](#) summarises findings from studies into the potential impact of Brexit on the economy over the short- and long-term.

# 1. The UK and the EU budget

## 1.1 Introduction

As a Member State the UK made payments, or contributions, to the EU budget. The EU also spent money in the UK, through various funding programmes. The EU's programmes include funds that support agriculture, develop regional economies and improve competitiveness.

In common with all Member States, the UK contributed to the EU budget through three sources:

- it collected customs tariffs and levies on behalf of the EU. 20% of the tariffs collected are kept by Member States to cover the cost of collection.
- it contributed a percentage of its adjusted, or harmonised, VAT-base.
- it contributed a percentage of its Gross National Income (GNI).

The UK received a rebate on its net contribution. The rebate was introduced in 1985 to correct the issue of the UK making relatively large contributions to the EU budget while receiving relatively little receipts from it. The rebate was deducted from the UK's contributions before its payments to the EU budget were made.

There is more on EU spending, revenue raising and budget processes in the Library briefing [A guide to the EU budget](#).

The UK contributed to the EU budget in the same way as other Member States but got a rebate on its contribution.

### Box 1: Brexit and the UK's financial transactions with the EU

Since the UK left the EU on 31 January 2020 it no longer makes payments to the EU as a Member State. However, the UK and EU have some financial obligations to each other which they are settling through a financial settlement.

The UK may make separate payments in the future to take part in some EU programmes.

[Section 3](#) of this briefing discusses both issues in further detail.

#### The Brexit financial settlement

In the [financial settlement](#), the UK and EU have set out how they will settle their outstanding financial obligations to each other. The obligations arise out of the UK's participation in the EU budget and broader aspects of its EU membership.

Broadly speaking the settlement can be split into three components:

- During the transition period, until the end of 2020, the UK will pay into the EU budget almost as if it were a Member State. The UK will also receive funding from EU programmes – such as structural funding – as if it were a Member State.
- EU annual budgets commit to some future spending without making payments to recipients at the time. The commitments will become payments in the future. The UK will contribute towards the EU's outstanding commitments as at 31 December 2020. Recipients in the UK will also receive funding for outstanding commitments made to them.
- The UK will share the financing of some EU liabilities (such as pensions of EU staff) as at the end of 2020, and any materialising contingent liabilities, and will receive back a share of some assets.

#### Contributions for taking part in EU programmes

The UK is participating in some EU programmes from January 2021 as a 'third country'. The [UK-EU Trade and Cooperation Agreement](#) covers the future UK-EU relationship and says that the UK will continue to participate in: Horizon Europe – the EU's research and innovation programme; Euratom Research and Training programme; International Thermonuclear Experimental Reactor (ITER) – the fusion test facility currently under construction in the South of France; Copernicus – EU satellite system for monitoring the Earth. The UK will make financial contributions to participate in these programmes.

## 1.2 UK contributions and receipts

Different approaches can be used to measure the UK’s net contribution to the EU budget. This briefing largely discusses HM Treasury’s approach, but figures from the European Commission are provided in Box 3. The key difference between the sources is that HM Treasury include only EU receipts allocated to UK government to manage, described as public sector receipts. Funds allocated directly to UK organisations (such as Universities) by the Commission are not included by HM Treasury.

### Gross contribution

HM Treasury estimate that in 2019 the UK made a gross contribution of £14.4 billion to the EU budget, with the rebate accounted for. The EU do not pay the rebate to the UK in a separate transaction, it is deducted from the contributions the UK makes to the EU.<sup>1</sup>

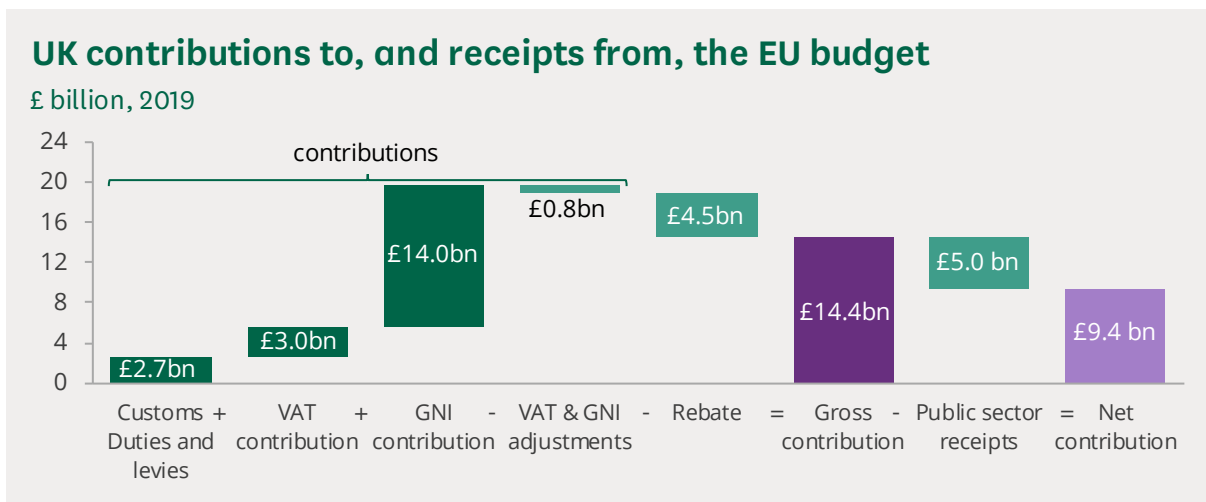
In keeping with all Member States, most of the UK’s contribution came from its Gross National Income (GNI)-based contribution. GNI contributions are used to balance the EU’s budget and therefore make up the difference between the EU’s spending and its other revenues.

### EU receipts and the net contribution

The UK received an estimated £5.0 billion of public sector receipts from the EU in 2019. This means the UK’s net contribution to the EU budget was £9.4 billion.

The UK’s estimated gross contribution (after the rebate) was £14.4bn in 2019.

The UK’s public sector received an estimated £5.0bn of funding from the EU in 2019. The UK’s net contribution, therefore, was £9.4bn.



As the Library briefing [Brexit: UK Funding from the EU](#) discusses, the majority of the receipts received by the UK were for agriculture. The European Agricultural Guarantee Fund (EAGF) – which pays subsidies to farmers – was the largest fund.

Much of the rest of the UK’s EU receipts came from the European Structural Funds. The Structural Funds – largely made up of the

The majority of the UK’s receipts from the EU were for agriculture.

<sup>1</sup> The rebate is paid a year in arrears. So the rebate applied in 2019 was calculated on the UK’s net contribution in 2018.

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[European Regional Development Fund](#) and [European Social Fund](#) – support economic development, skills, employment and training.

HM Treasury's measure of EU receipts does not include all the funding that UK organisations receive from the EU. HM Treasury include only funds allocated to the UK government to manage. Funds allocated directly to UK organisations by the European Commission, such as through [Horizon 2020](#), are not included by HM Treasury.

### Box 2: Who administers funding?

EU funding coming to the UK takes two forms:

- **Funds allocated to the UK government to manage** – this covers the majority of the EU's funding and is managed by national and regional authorities. In the UK, this is largely done through the structural and agricultural funds.
- **Funds allocated directly by the European Commission to UK organisations** – these funds are not allocated to Member States. In general, organisations apply directly to the Commission for funding from these streams, often on a competitive basis following calls for applications.

### UK contributions to, & public sector receipts, from the EU budget, £ million

	2014	2015	2016	2017	2018	2019
<i>UK contributions to the EU</i>						
Customs duties and levies	2,238	2,325	2,463	3,172	2,608	2,711
VAT contributions	2,388	2,661	2,677	3,040	3,074	2,966
GNI contribution	12,521	14,003	11,856	12,154	14,267	14,044
VAT & GNI adjustments	1,631	571	-	258	-2,505	-777
UK rebate	-4,416	-4,914	-3,878	-5,633	-4,247	-4,516
<b>Gross contributions (after rebate)</b>	<b>14,362</b>	<b>14,646</b>	<b>13,118</b>	<b>12,991</b>	<b>13,198</b>	<b>14,430</b>
Total Public Sector Receipts	4,583	3,883	3,492	4,084	4,273	4,988
<b>Net Contribution</b>	<b>9,779</b>	<b>10,763</b>	<b>9,626</b>	<b>8,909</b>	<b>8,925</b>	<b>9,442</b>

source: HM Treasury, European Union Finances 2019, [Table C.3](#)

As the above table shows, the UK's annual net contribution to the EU budget was volatile. Aside from exchange rate volatility, there are reasons for this both in terms of receipts and contributions.

On the contributions side the UK's GNI-contribution fluctuates most noticeably. Member States' GNI contributions are used to ensure the EU's budget balances – that is, they cover the gap between the EU's spending and its non-GNI revenues. This means the GNI contribution is susceptible to changes in the EU's spending from one year to the next and changes in the EU's other sources of revenue, including any surplus carried over from the previous year.

On the receipts side the flow of funding from the EU is not consistent from one year to the next.

As the rebate is calculated on the UK's net contribution, it shouldn't be surprising, given the volatility in both contributions and receipts, that the UK's rebate also fluctuates.

### Direct funding from the European Commission

Funds managed directly by the European Commission are generally aimed at improving competitiveness across the EU. They include funding for research and innovation ([Horizon 2020](#)), infrastructure ([Connecting Europe Facility](#)), education, training, youth and sport ([Erasmus+](#)), cultural and creative industries ([Creative Europe](#)) and support for small businesses to access finance and markets ([COSME](#)).

UK organisations receive around £1bn - £2bn a year directly from the European Commission.

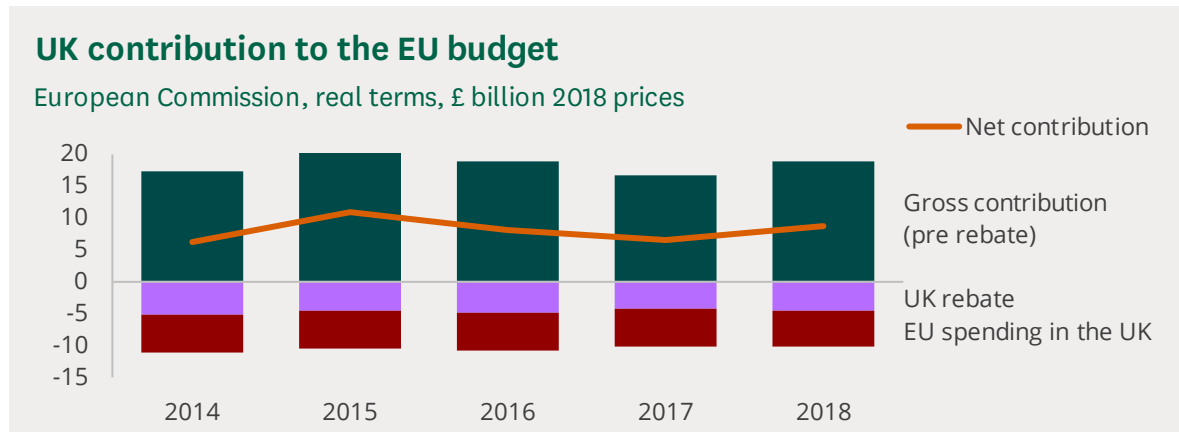
Data on the receipts received from these programmes are less timely, however in recent years they have been around £1 billion - £2 billion a year. If these are considered, the UK's average net contribution to the EU budget was £7.7 billion between 2014 and 2018.<sup>2</sup>

#### Box 3: The European Commission's calculation of the UK's budget contribution<sup>3</sup>

The European Commission publish data on the EU's spending in Member States and Member States' contributions to the EU budget. The Commission's approach is different to that of HM Treasury and, therefore, gives different figures:

- the Commission includes all receipts going to the UK, including those the Commission directly allocates. These are not included in HM Treasury's figures (see [section 1.2](#))
- the Commission attempt to match transactions to a particular EU budget year. HM Treasury's figures are based on cash flow within the year.

The chart below provides the Commission's data on the UK's net contributions. The Commission generally reports lower net contributions compared with HM Treasury. The lower net contributions are largely a result of the Commission including receipts directly allocated by them to UK organisations.



#### Member State comparisons

Member States' net contributions can be compared using the Commission's data. In 2018 the UK made the second largest net contribution to the EU budget in absolute terms, and the sixth largest net contribution per head of population.

Generally speaking, richer Member States are net contributors to the EU budget – they contribute more to the EU budget than they receive from it. Poorer states are generally net recipients – they receive more from the EU budget than they pay in. The 16 states with the lowest GNI per head of population are all net recipients from the EU budget. Section 3 of the Library briefing [A guide to the EU budget](#) provides further details.

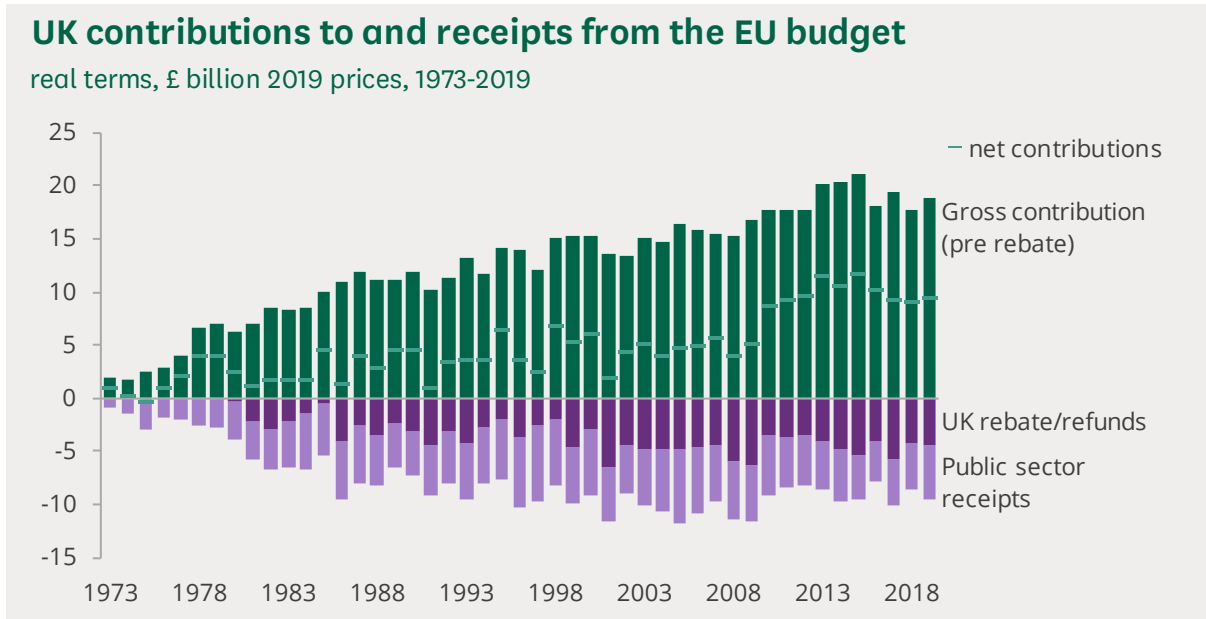
<sup>2</sup> EC's [EU expenditure and revenue 2014-2020](#), converted to £s using [BoE's data](#)

<sup>3</sup> EC's [EU expenditure and revenue 2014-2020](#), converted to £s using [BoE's data](#)



## The UK's net contribution and forecast net contribution

The chart below and the tables on the following pages show the UK's contributions and receipts from the EU since 1973, using HM Treasury figures for calendar years. As these are the Treasury's figures they do not include funding allocated directly by the Commission to UK organisations.



## UK public sector net contributions to the EU/EC Budget 1973-2019

£ million, cash

	Gross contribution before Negotiated rebate			Gross contribution (after rebate and refunds)	Public sector Receipts	Net Contribution
	rebate	refunds	Rebate			
1973	181			181	79	102
1974	181			181	150	31
1975	342			342	398	-56
1976	463			463	296	167
1977	737			737	368	369
1978	1,348			1,348	526	822
1979	1,606			1,606	659	947
1980	1,767	98		1,669	963	706
1981	2,174	693		1,481	1,084	397
1982	2,863	1,019		1,844	1,238	606
1983	2,976	807		2,169	1,522	647
1984	3,204	528		2,676	2,020	656
1985	3,940	61	166	3,713	1,905	1,808
1986	4,493		1,701	2,792	2,220	572
1987	5,202		1,153	4,049	2,328	1,721
1988	5,138		1,594	3,544	2,182	1,362
1989	5,585		1,154	4,431	2,116	2,315
1990	6,355		1,697	4,658	2,183	2,475
1991	5,807		2,497	3,309	2,765	544
1992	6,738		1,881	4,857	2,827	2,030
1993	7,985		2,539	5,446	3,291	2,155
1994	7,189		1,726	5,463	3,253	2,211
1995	8,889		1,207	7,682	3,665	4,017
1996	9,133		2,412	6,721	4,373	2,348
1997	7,991		1,733	6,258	4,661	1,597
1998	10,090		1,378	8,712	4,115	4,597
1999	10,287		3,171	7,117	3,479	3,638
2000	10,517		2,085	8,433	4,241	4,192
2001	9,379		4,560	4,819	3,430	1,389
2002	9,439		3,099	6,340	3,201	3,139
2003	10,966		3,559	7,407	3,728	3,679
2004	10,895		3,593	7,302	4,294	3,008
2005	12,567		3,656	8,911	5,329	3,582
2006	12,426		3,569	8,857	4,948	3,909
2007	12,456		3,523	8,933	4,332	4,601
2008	12,653		4,862	7,791	4,497	3,294
2009	14,129		5,392	8,737	4,401	4,336
2010	15,196		3,047	12,150	4,768	7,382
2011	15,356		3,143	12,213	4,132	8,082
2012	15,745		3,110	12,635	4,169	8,467
2013	18,135		3,674	14,461	3,996	10,465
2014	18,778		4,416	14,362	4,583	9,779
2015	19,560		4,914	14,646	3,883	10,763
2016	16,996		3,878	13,118	3,492	9,626
2017	18,624		5,633	12,991	4,084	8,909
2018	17,444		4,247	13,197	4,273	8,925
2019	18,944		4,516	14,428	4,988	9,442

notes:

figures may not sum due to rounding

receipts don't include funding directly allocated by the European Commission

sources:

HM Treasury, [European Union Finances 2019](#), July 2020

HM Treasury, [European Union Finances](#), previous editions

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### UK public sector net contributions to the EU/EC Budget 1973-2019

£ million, real (2019) prices

	Gross contribution			Total contribution	Public sector receipts	
	before rebate	Negotiated refunds	Rebate	(after rebate and refunds)	Public sector receipts	Net Contribution
1973	1,928			1,928	842	1,087
1974	1,660			1,660	1,376	284
1975	2,487			2,487	2,894	-407
1976	2,916			2,916	1,864	1,052
1977	4,076			4,076	2,035	2,041
1978	6,668			6,668	2,602	4,066
1979	6,942			6,942	2,849	4,093
1980	6,354	352		6,001	3,463	2,539
1981	6,959	2,218		4,741	3,470	1,271
1982	8,486	3,020		5,465	3,669	1,796
1983	8,357	2,266		6,091	4,274	1,817
1984	8,551	1,409		7,142	5,391	1,751
1985	9,978	154	420	9,403	4,824	4,579
1986	10,890		4,123	6,767	5,381	1,386
1987	11,965		2,652	9,313	5,355	3,958
1988	11,157		3,461	7,696	4,738	2,958
1989	11,245		2,324	8,922	4,261	4,661
1990	11,839		3,162	8,678	4,067	4,611
1991	10,145		4,363	5,782	4,831	951
1992	11,414		3,187	8,228	4,789	3,438
1993	13,168		4,187	8,981	5,428	3,553
1994	11,698		2,808	8,890	5,292	3,597
1995	14,121		1,917	12,204	5,822	6,382
1996	13,934		3,680	10,254	6,672	3,583
1997	12,062		2,617	9,446	7,035	2,410
1998	15,088		2,060	13,028	6,153	6,875
1999	15,243		4,698	10,545	5,155	5,390
2000	15,300		3,033	12,267	6,169	6,098
2001	13,509		6,568	6,941	4,941	2,000
2002	13,315		4,371	8,944	4,516	4,428
2003	15,128		4,910	10,218	5,143	5,075
2004	14,656		4,833	9,823	5,776	4,046
2005	16,493		4,798	11,695	6,994	4,701
2006	15,867		4,557	11,310	6,318	4,992
2007	15,505		4,386	11,120	5,393	5,727
2008	15,307		5,882	9,425	5,440	3,985
2009	16,817		6,418	10,399	5,238	5,161
2010	17,814		3,572	14,243	5,590	8,654
2011	17,642		3,611	14,031	4,747	9,285
2012	17,794		3,515	14,279	4,711	9,569
2013	20,114		4,075	16,039	4,432	11,607
2014	20,452		4,810	15,643	4,992	10,651
2015	21,181		5,321	15,860	4,205	11,655
2016	18,019		4,112	13,908	3,702	10,206
2017	19,379		5,861	13,517	4,249	9,270
2018	17,771		4,327	13,445	4,353	9,092
2019	18,944		4,516	14,428	4,988	9,442

notes:

figures may not sum due to rounding

receipts don't include funding directly allocated by the European Commission

sources:

HM Treasury, [European Union Finances 2019](#), July 2020

HM Treasury, [European Union Finances](#), previous editions

ONS. GDP deflator June 2020

## 2. The UK's rebate

As discussed previously the UK received a rebate on its net contribution to the EU budget. The rebate was introduced to address the issue of the UK making relatively larger net contributions than other Member States. When the rebate was introduced, in 1985, the UK received relatively little from the EU budget: it had a small agricultural sector, but most EU<sup>4</sup> spending went on agriculture. At the same time the UK made relatively large contributions to the budget, despite being among the less well-off Member States at the time.

As the rebate was included in the EU's regulation that determines Member States' contributions it was essentially permanent: the regulation could only be changed if all Member States, including the UK, agreed.

The rebate could only be changed if all Member States, including the UK, agree.

### How does the rebate work?

Broadly speaking the formula used meant that the UK's net contribution was reduced by 66% relative to what it would be without rebate.<sup>5</sup> However, certain parts of the EU's spending were excluded from the deduction including EU overseas aid, and non-agricultural spending in Member States that joined the EU after April 2004. This final exclusion, which was agreed by the UK, was phased in from 2009 to ensure that the UK contributed to the costs of enlarging the EU. The UK was, according to the then Prime Minister Tony Blair, "the strongest supporter of enlargement among all member states".<sup>6</sup>

The basic concept of the rebate remained the same since its inception, but changes to its calculation were made over time as the EU and its methods for raising revenues have changed. The changes aimed to keep the calculation similar to what it would have been had the overall system not changed since 1985.

The European Commission calculated the rebate on the basis of its estimates of the likely outturn for payments from the budget in-year and its estimates of Member States' contributions to the budget. These were then corrected in light of actual outturn figures. Corrections could be made up to three years after the year to which the rebate related, after which a final reckoning was made in the fourth year. The rebate was deducted from the UK's contribution a year in arrears.

The rebate is deducted from the UK's contribution a year in arrears.

### Who pays for the rebate?

The other Member States covered the cost of the rebate. The cost of the rebate was based on each states' share of EU GNI, but Germany, the Netherlands, Austria and Sweden only paid one quarter of their amount due. The reductions were paid for by the remaining Member States.

The European Parliament Research Service's briefing [The UK 'rebate' on the EU budget](#) discusses the rebate further.

<sup>4</sup> Or European Economic Community as it was then known

<sup>5</sup> The rebate is calculated by taking the difference between the UK's percentage share of contributions to the EU and the UK's percentage share of EU receipts, multiplying this figure by 0.66 and then multiplying it by total spending.

<sup>6</sup> [HC Deb 19 December 2005 c1563-5](#)

## 3. UK payments to the EU after Brexit

Even though the UK has left the EU it will still have some financial transactions with the EU.

First, the UK and EU have some outstanding financial obligations to each other that they are settling through the "[financial settlement](#)". The financial settlement was part of the [UK-EU Withdrawal Agreement](#).

Second, the UK is making some financial contributions to continue participating in a small number of EU programmes as a third country from January 2021.

### 3.1 The financial settlement between the UK and EU

In the financial settlement (the settlement), the UK and EU have set out how they will settle their outstanding financial obligations to each other. The obligations arise out of the UK's participation in the EU budget and broader aspects of its EU membership.

The settlement says which financial commitments will be covered, the methodology for calculating the UK's share and the payment schedule. The settlement is part of the Withdrawal Agreement, which is the legally binding treaty setting out the negotiated terms of the UK's departure from the EU.

Broadly speaking the settlement can be split into three components:

- During the **transition period**, until the end of 2020, the UK will pay into the EU budget almost as if it were a Member State. The UK will also receive funding from EU programmes – such as structural funding – as if it were a Member State.
- EU annual budgets commit to some future spending without making payments to recipients at the time. The commitments will become payments in the future. The UK will contribute towards the EU's **outstanding commitments** as at 31 December 2020. Recipients in the UK will also receive funding for outstanding commitments made to them.
- The UK will **share the financing of some EU liabilities** (such as pensions of EU staff) as at the end of 2020, and any materialising contingent liabilities, and will **receive back a share of some assets**.

There is no definitive cost to the settlement. The final cost to the UK will depend on future events such as future exchange rates and EU budgets. The Office for Budget Responsibility (OBR) estimate that the financial settlement may cost the UK around £33 billion by the time the final payment is made, possibly in the 2060s.

Further information is available in the Library briefing [Brexit: The financial settlement](#).

## 3.2 Payments to participate in EU programmes as a third country

The UK is continuing to participate in some EU programmes after the end of the transition period (from 1 January 2021) as a 'third country'. The UK will make financial contributions to take part in these programmes.

The [UK-EU Trade and Cooperation Agreement](#) covers the negotiated future UK-EU relationship and says that the UK will continue to participate in the following EU programmes:

- Horizon Europe – the EU's research and innovation programme
- Euratom Research and Training programme
- International Thermonuclear Experimental Reactor (ITER) – the fusion test facility currently under construction in the South of France
- Copernicus – EU satellite system for monitoring the Earth

### Financial contribution

The UK will make financial contributions to take part in the EU programmes. The contributions for taking part in EU programmes are part of the future relationship and aren't part of the financial settlement. The financial contribution will be calculated on:<sup>7</sup>

- a contribution based on the wealth of the UK (proportion to its GDP) in comparison with the wealth of the EU.
- a participation fee, covering the administrative costs of organising the system of EU programmes.
- in addition, for Horizon Europe, a standard adjustment mechanism ensuring a balance between UK contributions and the benefits for its entities, through specific corrective measures.

### Other third country participation

The UK is not the only non-EU country to participate in EU programmes. Other third (non-EU) countries, who have some relationship with the EU, take part in some of the Commission's funding programmes. For instance, Turkey – a candidate country for EU membership – has participated in programmes including [Horizon 2020](#), [Erasmus+](#), [COSME](#) and [EaSI](#).<sup>8</sup> Norway – a member of the European Economic Area (EEA) – participated in [at least 12 EU programmes](#) during the 2014-2020 budget period.

Some non-EU countries already take part in European Commission funding programmes.

Non-EU countries often make a financial contribution to European Commission programmes they participate in based on the relative size of their national income. Beyond financial contributions, the Commission may have other requirements for some programmes, such as an agreement on free movement of people. For instance, Switzerland's participation in Horizon 2020 – the EU research and

<sup>7</sup> European Commission, [Questions & Answers: EU-UK Trade and Cooperation Agreement](#), 24 December 2020

<sup>8</sup> European Commission. [Participation of Third Countries in the COSME Programme](#)

## 15 The UK's contribution to the EU Budget

innovation programme – covered only part of the programme until it met the EU's requirements on free movement of people.<sup>9</sup> However, non-EU countries membership of Horizon 2020 does not follow one single model.

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<sup>9</sup> For more see the Library briefing [UK Funding from the EU](#).

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