

CONFIDENTIAL

Reference

1. Secretary *21/10*
2. Minister of State

John Green
M Johnston

BELFAST HOTELS - EUROPA AND RUSSELL COURT

Europa

1. I informed you last week that HM Treasury has turned down our proposed assistance to the Europa (interest grant of approx £60,000 for one year) on the grounds that (a) the case was not based on the preservation of employment and (b) UK Ministers should not be asked, at a time of rising public expenditure demands in Northern Ireland, to consider what Treasury describe as a 'propaganda or counter-propaganda operation'.
2. The view of Department of Commerce officials is that this rejection must be contested. The main case for assistance is not simply 'propaganda' but the need to maintain general business confidence - to which successive Governments have given high priority since the start of the troubles. Confidence is a delicate plant and firms are sensitive not only to their own situation but to what they see happening around them. The closure of the Europa, synonymous for so long with defiance of the terrorists, would be seen as a significant decision by a major UK group which boded ill for the future level of business activity in Belfast. The maintenance of confidence is of course inseparable from the maintenance of employment, in which the Department is now heavily engaged in the manufacturing sector.
3. We would propose to develop this argument with HM Treasury and, also, to point to the substantial direct employment provided by the Europa (some 200). While many of the staff might, in present circumstances, be expected to find other jobs in the catering industry, the loss of 200 jobs would be a serious reduction in the total number available in this sector and would make recovery when the troubles end all that slower and more difficult.

Russell Court

4. The justification for aiding the Europa cannot be considered in isolation from our interest in the Russell Court which, as the attached note indicates, is in even greater financial straits. We understand that the parent company (the hotels division of CIE) is likely to decide to close the hotel at its next Board meeting on 20 November unless some means can be found in the meantime to improve its financial position and prospects.

CONFIDENTIAL

Reference

5. Substantial financial assistance has gone into this project in the form of hotel grants (and bomb damage compensation). If the premises ceased to be used as a hotel these grants would almost certainly be 'lost' in the sense that we could not expect repayment. The proceeds of a sale would be entirely absorbed in repaying the outstanding debt to the Lombard and Ulster Bank, which has a first charge on the assets. There is therefore a public interest in encouraging the maintenance of the hotel if this can be done without substantial additional cost.
6. There is a further interest in maintaining the connection with ^{OIE}/CIE, because of the potential value of this link in developing hotel business in better times. It is clear, however, that the business could never be profitable while it continues to bear the present heavy loan burden. There have been discussions between the company and NIFC on possible ways of dealing with this problem, but the company's proposals (which would involve £1 million equity investment by NIFC) are unacceptable to the NIFC executives, who are recommending rejection.. This will be considered at the NIFC's Board meeting on Friday this week.
7. The NIFC executives believe that a smaller, viable, hotel business could be preserved by selling off part of the premises for offices or flats and using the proceeds to reduce the Lombard and Ulster debt. The size of the latter must make this a doubtful proposition but it is clearly desirable that all possibilities should be explored before a final decision is taken to close. One possible influence on the ^{OIE}/CIE decision is that we are still holding back some £60,000 of hotel grants. I propose to inform the company that these grants will not be paid unless we are given a firm indication of an intention to try to keep the hotel going, even if on a reduced scale.

Relationship between Europa and Russell Court cases

8. We thus have two major new hotels which may close failing Government/NIFC intervention and which would be unlikely, in foreseeable circumstances, to reopen under new management. The results in terms of loss of accommodation and function facilities would not be immediately worrying - the Conway, Dunadry and other good class hotels on the outskirts of the city should be able to cope and would indeed benefit from the extra business. However, the effect on business and, indeed, general public confidence could be severe. If we had to choose one of the two for special support, the Russell Court under its present ownership would be attractive in terms of potential business; but it faces relatively more severe obstacles to achieving viability. The

CONFIDENTIAL

Reference

closure might also be expected to make relatively less impact on public opinion in the short term.

9. In practice it would be difficult to defend discrimination between the two cases. More defensible attitudes would be either no help at all; or assistance on a broadly comparable scale. Our current proposals for the Europa set a standard for grant assistance.

Summary

10. I would hope, at our meeting on Thursday afternoon to ascertain your views and wishes on -
- (a) the case for pressing our proposed aid to the Europa, in the light of the Russell Court position;
 - (b) the attitude of the Department to NIFC involvement in the Russell Court problem (and other hotel projects);
 - (c) the action which the Department itself should take directly with OIE/CIE in an attempt to safeguard the existing public investment (grants) in the Russell Court and to encourage OIE/CIE to continue the business even if on a more limited scale.

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F T MAIS

29 October 1974

c.c. P/S to MR ORME, MINISTER OF STATE
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MR K P BLOOMFIELD
MR R H KIDD, Dept of Finance ✓
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DEPT. OF COMMERCE