

PRIME MINISTER 2

SECRET

BRITISH CALEDONIAN

Paul Channon's minute below reports that Britian Caledonian have approached British Airways about the possibility of a takeover.

The minute is sketchy (necessarily) and in particular can give no explanation why British Caledonian feel they can no longer remain independent.

The handling of this could be tricky. It may well involve questions of monopoly which you try to stay out of. But it also involves clear questions of public policy on which you should have a say. I suggest you await Paul Channon's report of his conversation with Sir Adam Thomson.

Nigel has a vague memory that one of Lord Whitelaw's daughters is married to someone senior in British Caledonian. If true, this will need to be kept in mind.

On another matter, I understand that the sale of Clydesdale Bank has been well received in Scotland, helped by the endorsement of management and unions. The SNP have, however, asked for a reference.

DNW
(DAVID NORRGROVE)

7 July 1987

SECRET