

SECRET

PRIME MINISTER ²

BRITISH CALEDONIAN

Mr. Channon's minute reports the latest position and attaches a very crisp paper by officials which is succinct enough that I shall not attempt to summarise it.

It concludes in effect that the Government should allow matters to take their course.

There is a clear implicit conclusion that Lord Young should agree to refer a merger to the MMC.

*- As it is Lord Young's decision -
that language is highly prejudicial. not*

In view of Lord Young's special role in this I suggest you do no more than take note of Mr. Channon's minute and the conclusions reached by officials.

DKW

DAVID NORGROVE

10 July 1987

SLHAKZ

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