Leading the News: Bonuses expected to jump in City of London, but not to 2007 peak

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What's News

Qatar's sovereign fund sold 379.2 million shares in Barclays by converting half of its warrants for $2.1 billion, almost doubling its investment. Qatar Holding said it would retain a 7% stake and the rest of its warrants in the British bank. Page 5

■ **EU finance ministers** failed to agree on how to fund the fight against climate change, passing the issue to EU leaders. Page 3

■ **Bank of England Gov.** Mervyn King said heightened regulation can't prevent financial speculation that results in bank failures. Page 5

■ **Stocks fell** in the U.S. and Europe as weak housing and producer-price data crimped investor optimism. Page 18

■ **Crude-oil prices** may be showing signs of recovery, but natural-gas prices will stay depressed for years, the CEO of Italy's ENI said. Page 4

■ **Denmark and Turkey gave** approval this week to major, separate Russian gas-export pipeline projects. Page 4

■ **Several OPEC drilling** projects that had been put on hold during the recession are now moving forward, the group's chief said. Page 17

■ **Caterpillar provided** a bullish assessment for a global recovery, exceeding third-quarter profit expectations by a wide margin. Page 8

■ **Adecco said** it will acquire U.S.-based MPS for $1.3 billion, widening its lead among staffing firms. Page 6

■ **Ahold's sales rose** less than expected in the third quarter amid mounting price wars in the U.S. Page 6

■ **Talks continued** between Royal Mail and workers, under the threat of a walkout beginning Thursday. Page 9

■ **The European commercial** property market is picking up steam but still has far to go before it reaches a semblance of normalcy. Page 2

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■ **Turkey released** a band of Kurdish rebels who surrendered in a peace gesture.

■ **Pakistan continued** an offensive in a Taliban stronghold, as the prospect of a refugee crisis loomed. Page 10

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Attacking the beast
Can Greece's Socialists slay a monstrous bureaucracy? Page 13

Breaking news at europe.WSJ.com

Karzai concedes to vote runoff

Afghan president accepts need for second round slated for Nov. 7, but disputes fraud finding

By Yaroslav Trofimov And Anand Gopal

Afghan President Hamid Karzai, left, with visiting U.S. Sen. John Kerry Tuesday, bowed to international pressure to take part in a runoff election.

Getty Images

KABUL—President Hamid Karzai yielded to international pressure and accepted a runoff in Afghanistan's controversial presidential election, ending a debilitating political deadlock and triggering preparations for a new vote on Nov. 7.

Mr. Karzai's decision, announced after days of meetings in Kabul with U.S. Sen. John Kerry and phone conversations with several world leaders, opened a way out of the political crisis that undermined the legitimacy of the country's democratic process and reinforced the spreading Taliban insurgency.

Minutes before Tuesday's announcement, Afghanistan's election commission, which initially assigned Mr. Karzai 54.6% of the votes in the Aug. 20 poll, partially endorsed a ruling by a United Nations-led watchdog to disqualify hundreds of thousands of allegedly fraudulent ballots. This pushed Mr. Karzai's tally below the 50% needed to avoid a second round, triggering a runoff against Abdullah Abdullah, a former foreign minister.

Flanked by Sen. Kerry and four Western envoys, Mr. Karzai didn't accept that the disqualified ballots in his favor, cast mostly in ethnic Pashtun southern and eastern Afghanistan, were in fact false. "Why these votes were disrespected should be investigated. But now is not the time for this—now is the time to move forward to stability and national unity," Mr. Karzai said. "I prefer to put the interests of the Afghan people above my personal interests."

Mr. Karzai is widely expected to win the election, especially because Dr. Abdullah—viewed as representing the ethnic Tajik minority—has little support among the Pashtuns, Afghanistan's biggest ethnic community. Mr. Karzai hails from a prominent Pashtun family in southern Afghanistan's Kandahar province.

Holding the second round will be difficult. "The challenges of holding the election in an incredibly difficult security environment simply cannot be overstated," said Sen. Kerry, who heads the U.S. Senate's Foreign Relations Committee.

The first snows are already beginning to block mountain passes, impeding access by voters and election officials. Taliban insurgents, meanwhile, are expected to redouble their efforts to disrupt the electoral process that they reject as illegitimate.

According to Maeen Minstryal, a Karzai campaign

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Vatican opens door for Anglican converts

By Stacy Meichtry And Amy Merrick

ROME—Pope Benedict XVI introduced a fast track for Anglicans seeking to join Roman Catholicism, paving the way for conservative Anglicans frustrated by their church's blessing of same-sex unions and homosexuality in the priesthood to enter the Catholic fold.

Pope Benedict XVI

The Vatican on Tuesday announced plans to create a special set of canon laws, known as an "Apostolic Constitution," to allow Anglican faithful, priests and bishops to enter into full communion with the Vatican without having to give up a large part of their liturgical and spiritual traditions.

With the measures, Pope Benedict is attempting to reclaim ground lost by the Roman Catholic Church in the 16th century when King Henry VIII defied papal authority to found the Church of England. The move clears the way for entire congregations of Anglicans to join the Catholic Church and makes it easier for married Anglican priests to convert without embracing Catholicism's traditional

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Bubbly over China

LVMH's exposure helps it pull out of industry slump
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	10041.48	-0.50
Nasdaq	2163.47	-0.59
DJ Stoxx 600	248.25	-0.44
FTSE 100	5243.40	-0.72
DAX	5811.77	-0.70
CAC 40	3871.45	-0.54
Euro	$1.4943	-0.03
Nymex crude	$79.09	-0.65

Euro to rise on need of nations to cut debt

By Gabriele Parussini And Paul Hannon

LUXEMBOURG—European governments started to establish a framework for cutting the debts they have accumulated to tackle the global financial crisis, setting out an agreed timetable for embarking on their exit strategies.

But the more they talk about the removal of stimulus, the further the euro rises against the U.S. dollar and other major currencies, threatening a hoped-for recovery.

At their monthly meeting Monday and Tuesday, finance ministers from the European Union's 27 member states agreed that they should start to bring their budget deficits down by 2011 at the latest toward the 3% of gross domestic product required under EU rules.

The ministers agreed that "substantial fiscal consolidation is required to halt and eventually reverse the increase in debt and restore sound fiscal policy." Actual consolidation is conditional on their economies being firmly in recovery, and the finance ministers also left room for maneuver in agreeing that the "specificities of country situations should be taken into account."

But new reports showed the magnitude of that task. With the British economy in

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LEADING THE NEWS

Commercial market gains footing

Sales move higher for Europe property, but challenges remain

By William Boston

Special to the WSJ

The increase in European commercial-property sales, which was evident in the third quarter, is picking up steam. But the market still has a long way to go before it reaches a semblance of normalcy.

PROPERTY REPORT

Early last week, **IVG Immobilien** AG, the German property group with nearly €23 billion ($34 billion) of assets under management, was hamstrung with a loan-to-value ratio of an estimated 90%. But by the end of the week, IVG unveiled the sale of five properties for about €470 million, transforming itself from a debt-saddled firm into an opportunistic predator. IVG had planned to sell property valued at €1 billion by the end of 2010. Having reached the goal a year early, it can get on with its business.

"Our work will now focus on...improving the company's operations and taking advantage of selected market opportunities," said Gerhard Niesslein, the company's chief executive.

Another sign Europe's publicly traded property companies are turning the corner: **British Land** Co., one of the U.K.'s largest publicly traded property companies, announced Monday that it had purchased 39 Victoria Street, an office building in London's posh West End district, for £40 million ($66 million). The building is rented to Bank of America until July 2012 and marks the first time British Land has acquired anything since the beginning of the financial crisis in 2007.

"This is a small deal, but it is one of the first reasonable deals and may signal the beginning of purchases by listed property companies," said Harm Meijer, head of European property research at J.P. Morgan Chase in London.

The change in mood is also reflected in the latest data. Investment in European commercial property surged 53% in the third quarter to €19.6 billion, from €12.8 billion in the second quarter, according to Cushman & Wakefield, the property-services group. Still, that pales in comparison to earlier years. There was €44 billion in investment in European commercial property in the first nine months of 2009, compared with €203 billion in the same period of 2007.

The mood in Europe is noticeably more upbeat than in the U.S. One reason is that the U.S. still has to figure out how to handle its massive overhang of commercial mortgage-backed securities, which played a much larger role in property financing in the U.S. than in Europe. "Europe used CMBS, but it pales in comparison to what is going on in the U.S.," says Steve Collins, managing director of the international capital group at Jones Lang LaSalle.

Demand from foreign investors for European property also is intensifying. Debt remains scarce but is becoming more available for small deals or transactions in which the buyer puts in 40% to 50% equity.

Credit Suisse Group is selling its office building at 20 Columbus Courtyard in London's Canary Wharf district to a group of Lebanese investors led by M1 Real Estate for more than £150 million ($246 million). The Swiss bank will remain as a tenant with a 25-year lease. M1 Real Estate is based in Monaco and is a unit of **M1 Group**, whose founder is Najib Mikati, the former Lebanese prime minister.

Another Canary Wharf deal being closely watched is the **HSBC Holdings** PLC global headquarters building. HSBC sold its main New York City building this month to **IDB Group**, an Israeli investment holding company, for $330 million and has put its London property on the block.

Investors are encouraged by the steep fall in European commercial-property valuations and evidence that prices have hit bottom or are very close. Property values have fallen 22% in Europe as a whole since the peak in 2007, according to Cushman & Wakefield. In Western Europe, the U.K. took the hardest hit, falling 40%. Excluding the U.K., property values fell 17% in Western Europe, while Central Europe slipped 26% and Eastern Europe plunged 45%.

In the past six months the fall in property values has slowed or stopped in some markets and prices have begun to stabilize. Average European prime commercial property yields stood at 7.51% in the third quarter. Yields are an indication of property prices. A lower yield indicates prices are rising. European average yield fell slightly, affected by a fall of 0.24 percentage point to 6.73% in the U.K.

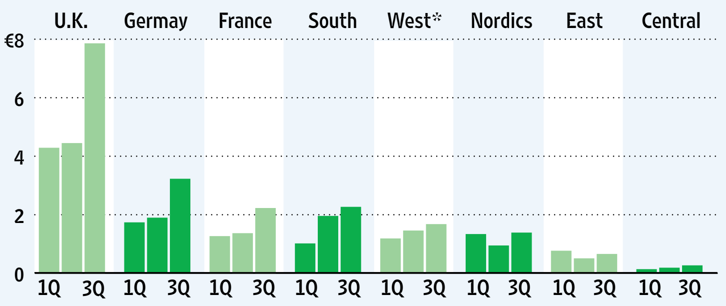
It is in the U.K., which was one of the property markets hit hardest by the financial crisis, where the strongest signs of recovery can be seen. According to the closely followed monthly IPD Capital Growth index, the market value of U.K. commercial property rose 1.1% in September, the largest monthly increase since June 2006. Capital growth in the third quarter was 1.2%.

The news isn't all good. The recession is still working its way through the economy, and analysts warn the current recovery could be short-lived unless the broader economy recovers and improves the fundamentals of the real-estate industry. While the IPD data show property prices are recovering, growth was stunted by falling rents. Prime rents fell 7.9% across Europe in the third quarter. Continued weakness in the broader economy creates uncertainty about the prospects for the coming year.

"The jury's out on what 2010 may hold," said David Hutchings, head of European research at Cushman & Wakefield, in a statement. "There are still plenty of problems for the market to deal with, but with two quarters of growth in activity and much improved sentiment, it's clear that we've turned an important corner."

European property investment surges

U.K., Germany and France attract investors. 2009 commercial property investments, in billions



*Excludes U.K., Germany and France

Source: Cushman & Wakefield

U.S. promises to limit shield to NATO nations

By Samantha Shields

TBILISI, Georgia—The U.S. doesn't intend to put any part of its revised missile shield in non-NATO countries, a senior defense official said in Georgia Tuesday, in an apparent attempt to calm Russian nerves.

Amid its so-called resetting of relations with Russia, Washington said in September it was scrapping a Bush administration plan to build a missile-defense shield in Poland and the Czech Republic, which are NATO members. Moscow, which had protested that plan as a potential threat to its nuclear arsenal, rejoiced at the decision.

But later reports that the U.S. was considering placing early-warning radar systems in Ukraine provoked an angry reaction from Russian Foreign Minister Sergei Lavrov. Russian Prime Minister Vladimir Putin had similarly harsh words for later reports that elements of the shield might be placed in the Caucasus.

"We are not consulting with any non-NATO countries, and we do not envisage the emplacement of elements of our new architecture on the territory of any non-NATO states," Deputy Secretary of Defense Sandy Vershbow, who had been quoted in the initial reports that rattled Moscow, told reporters Tuesday in Tbilisi.

He added the U.S. was in the early stages of discussions with Russia itself on how it could contribute to missile defense.

Mr. Vershbow, speaking after a meeting of a security working group established after last year's war between Russia and Georgia, also dismissed Georgian and Russian reports that the U.S. was planning to build military bases in Georgia.

When asked about arms sales to Georgia, Mr. Vershbow said the U.S. wouldn't take any steps that would be counterproductive to peace and stability in the region.

CORRECTIONS & AMPLIFICATIONS

The Web site of the nonprofit group Children of Hoarders is www.childrenofhoarders.com. A Health Journal article Tuesday incorrectly listed the address as www.coh.com.

France Télécom suspends restructuring in wake of employee deaths

By Ruth Bender

PARIS—**France Télécom** SA said it will suspend all restructuring until the year end amid talks with unions on working conditions, following a spate of suicides at the company.

A company spokesman said the latest freeze goes a step further than the suspension of all internal job shuffling, which the company announced last month. Until Dec. 31, when negotiations with workers unions are due to finish, France Télécom will put on hold any plans to close or merge sites, a spokeswoman added.

The latest death at the company occurred Thursday, bringing to 25 the number of employees who have taken their lives since February last year at France Télécom.

France Télécom is a former state monopoly that has been under major restructuring. The telecommunications giant employs 100,000 people in France.

Though the number of suicides at the company is in line with the national average, according to the World Health Organization, the violent nature of the deaths—including a worker who jumped to his death from a highway overpass in the Alps—has made headlines for months in France and put management on the defensive.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

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Agence France-Presse

Italian Finance Minister Giulio Tremonti, left, chats with French counterpart Christine Lagarde in Luxembourg on Tuesday.

EU targets deficits as euro rises

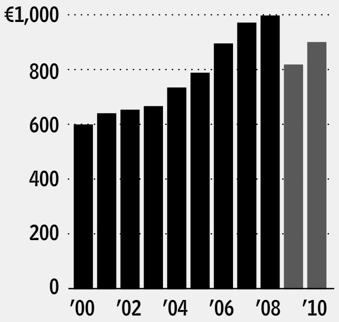
Continued from first page

its sharpest recession in decades, spending on public services has soared. The U.K.'s public sector borrowed a net £14.8 billion in September, the highest on record for that month and up from £8.7 billion in September 2008, data showed Tuesday.

The government's full-year target for net public-sector borrowing is £175 billion, or 12.4% of gross domestic product. In the first half of the financial year, which started in April, debt reached a record net £77.3 billion. That is more than twice the £33.8 billion in the year earlier period, which was the previous record.

Sinking demand

German exports, in billions



Note: 2009 and 2010 figures are estimates
Source: BGA Association of German Exporters and Wholesalers

Greek Finance Minister Giorgos Papaconstantinou, meanwhile, said Tuesday that his government's budget deficit will reach 12.5% of gross domestic product this year and that it will take three to four years to cut it to 3% of GDP.

Mr. Papaconstantinou's estimate for the 2009 deficit is slightly higher than the previous range of 10% to 11.5% of GDP.

In early Europe trading Tuesday, the euro nudged higher, almost reaching the psychologically significant $1.50 level against the dollar before easing a little.

That prompted German exporters to renew their complaints about the euro's strength. The BGA Federation of German Wholesale and Foreign Trade warned that the euro's strength "in reality is a dollar weakness, which is creating certain problems for German export business."

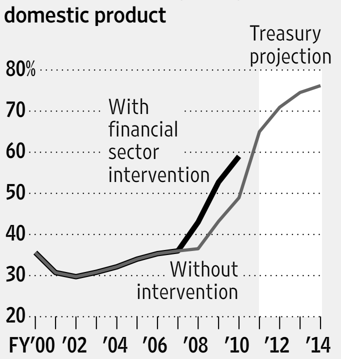
BGA President Anton Boerner said that "a further recovery in the sectors of mechanical engineering, automotive, chemical and electrical engineering, which are exporting over-proportionately into the dollar area, could be at risk."

The euro's rise has been underpinned by expectations that the European Central Bank is likely to start moving its interest rates higher before the U.S. ECB President Jean-Claude Trichet's repeated claims that the U.S. wants and would benefit from a strong dollar, and his warning that sharp movements in foreign-exchange rates can damage economic growth, have been overlooked"If anything, these statements serve as reminders to the markets of how helpless the ECB and European Union are," said Ulrich Leuchtmann, chief currencies analyst at Commerzbank SA in Frankfurt.

—Alessandro Torello in Brussels, Andrea Thomas in Berlin and Katie Martin and Laurence Norman in London contributed to this article.

Piling up

Government intervention to support the banking system has added significantly to public debt. U.K. net debt as a percentage of gross domestic product



Note: Figures are for fiscal year ending in March 31. Figures for 2010 are for the first six months
Source: U.K. Office of National Statistics

U.K. Conservative to meet Obama officials

By Alistair MacDonald

William Hague, the Tory shadow foreign secretary, said he is travelling to the U.S. for meetings with "senior members" of the Obama administration, in a visit that underscores the continued strengthening of the Conservative Party's ties with the U.S.

Mr. Hague said he planned to meet Secretary of State Hillary Clinton and National Security Adviser Gen. Jim Jones as well as Senate Foreign Relations Committee Chairman John Kerry, and Republican Sens. John McCain and Richard Lugar. On his mind: the U.S. strategy review in Afghanistan, U.S. efforts to relaunch the Middle East peace process, Iran's nuclear program and, a favorite issue for Mr. Hague, the Balkans.

For much of President George W. Bush's administration, the Conservatives, including Mr. Hague, were given short shrift by the White House. In 2004, former Tory leader Michael Howard had angered Mr. Bush for his constant haranguing of Tony Blair over the failure to find Iraq's weapons of mass destruction.

Having healed that rift and established links with President Barack Obama, senior Conservatives such as defense spokesman Liam Fox are frequent visitors to Washington, say some Republicans. The Conservatives' lead in opinion polls by as much as 17 percentage points ahead of an election to be called before June is also helping the party win attention in the U.S.

"I am visiting the U.S. to reaffirm our historic alliance and underline the Conservative Party's firm commitment to addressing the common global challenges which confront us and to working with the Obama administration to that end," Mr. Hague said.

Bonuses seen rising 50% in U.K. financial sector

Total payouts seen at $9.82 billion, below the 2007 peak

By Adam Bradbery

LONDON—Bonus payouts in the U.K. financial sector are expected to rise to £6 billion ($9.82 billion) this year, up 50% from a year earlier but well below the 2007 peak, according to a new forecast.

The outlook from the U.K.'s Centre for Economics and Business Research comes amid broad public displeasure with financial-sector bonuses. The Obama administration has installed a pay czar to vet compensation at seven U.S. institutions receiving significant government aid, and the U.K. recently agreed to tighter controls on bonuses laid out by the Group of 20 leading nations, which recently agreed to find ways to align bankers' pay more.

The U.K. government recently secured agreement from domestic banks and some international bank branches in London to abide this year by new rules on pay, to come into force Jan. 1, 2010.

The rules, announced by the Financial Services Authority in August and modeled on the G-20's agreement, will require banks to defer the bulk of bonus payments over several years and to link those deferred payments to the future performance of the bank and the employee's division within it.

Meanwhile, U.S. special pay master Kenneth Feinberg said Tuesday he is working to finalize pay packages for certain executives and employees at seven companies that are large recipients of government aid—a group that includes **Citigroup** Inc., **General Motors** and **Bank of America** Corp. In remarks Tuesday, Mr. Feinberg said, "We're trying, under the statute, to come up with compensation packages that reflect the statute and the regulations and are also hopefully acceptable to the seven companies."

Public disclosure of his determinations should come by Oct. 30.

Also Tuesday, **Credit Suisse Group** introduced its new bonus payout plan for top executives, to be paid out in the spring, including more closely linking awards to the bank's overall profitability. The Zurich bank will award a greater portion of pay as fixed salary as opposed to bonus.

Bonuses remain well off their peak in London. The CEBR's 2009 U.K. bonus estimate is much lower than the £10.2 billion paid out in 2007, reflecting a poor start to this year and fewer people working in the financial sector since the start of the financial crisis. Still, the forecast marked a big revision upward from the £4.1 billion in CEBR's April report, reflecting better-than-expected second- and third-quarter earnings reports from banks. A revision to the way the estimate is calculated also contributed.

Credit Suisse introduced its new bonus payout plan for top executives.

Most of the 2009 bonuses will be awarded this year and paid out in early 2010.

CEBR estimates there are 49,000 fewer jobs in the U.K.'s financial sector today, representing a fall of 14% from the peak in 2007, and the number of jobs won't return to the precrisis level for at least a decade.

"Bonuses are beginning to bounce back but will not reach the levels of 2007 anytime soon," says Benjamin Williamson, CEBR economist. "Profits of major financial-sector institutions have jumped sharply; therefore bonuses, which to some extent are a profit-sharing scheme, have also risen."

EU ministers dodge decision on funding for climate fight

By Alessandro Torello

LUXEMBOURG — European Union finance ministers failed to agree on how to fund the fight against climate change, passing the issue to EU leaders, who will meet later this month.

Climate change led the agenda of the 27-nation bloc's monthly finance gathering. The EU is preparing the bloc's negotiating position for the global summit in Copenhagen in December.

The contribution of rich countries to the financial burden of poorer nations struggling to reduce greenhouse-gas emissions and limit the effects of climate change is instrumental to a global deal.

However, EU governments are fighting over how much they should have to give.

Former communist bloc countries such as Poland don't want to give much at all, while Sweden pleads for generosity. Others, such as Italy, argue it would be better not to flag a precise number before the last stage of the negotiations in Copenhagen, as this would limit Europe's room for maneuvering.

"It is a disappointing outcome, that we weren't able to reach an agreement," said Swedish Finance Minister Anders Borg.

The European Commission, the bloc's executive office, says developing countries are likely to need €100 billion ($149 billion) a year by 2020 to limit greenhouse-gas emissions and adapt to the effects of climate change, such as increased floods.

Without a deal Tuesday, EU leaders will have to talk hard to find an accord when they meet in Brussels on Oct. 29-30.

The EU has argued for two parameters—total pollution and national wealth—to determine how to divide the global cost of paying for climate-change action.

LEADING THE NEWS

ENI chief sees drag on natural-gas prices

Scaroni says poor economics may prompt Italian energy giant to shelve some projects currently in the pipeline

By Guy Chazan

Crude-oil prices may be showing signs of a recovery, but natural-gas prices will stay depressed for years to come, the head of Italian energy company **ENI** SpA said in an interview on Tuesday—and the grim price outlook could force energy companies to rethink some investments in new gas projects.

"Gas prices are going to stay low for a considerable time—the next three to four years," said ENI Chief Executive Paolo Scaroni. As a result, "we are looking much more carefully now at projects that were in the pipeline."

For example, poor economics may prompt ENI to shelve a plan to double capacity at a big liquefied-natural-gas plant in Egypt, called Damietta LNG, Mr. Scaroni said.

The price of gas has traditionally tended to take its cue from crude prices. But while oil has more than doubled since its lows of late 2008, the price of gas has lagged far behind.

Paolo Scaroni

That reflects not only the recession-driven drop in demand for the fuel from utilities and industrial consumers, but also a big glut of gas in North America. Advances in drilling technology have allowed producers to tap huge volumes of gas locked in dense rock called shale. That has led to a big uptick in production and an upgrading of domestic reserves.

The U.S. price of gas has fallen to around $5 per million British thermal units, from more than $13 per million BTUs in July last year. Meanwhile, crude oil has risen from around $35 a barrel at the end of last year to briefly nudge over $80 Monday, on a weakening dollar. It fell back slightly to $78.81 a barrel Tuesday afternoon on the New York Mercantile Exchange.

Experts agree that the outlook for natural gas looks grim, but some say it will improve after about 2013.

"Once you go out a few years—and demand recovers and the market absorbs the excess gas—things look more positive," said Frank Harris, a gas analyst at consultancy Wood Mackenzie. "But there's an awful lot of uncertainty that could change the picture."

Whatever the long-term outlook for gas is, some experts note a fundamental change in the market—a "decoupling" of oil and gas prices, particularly in the U.S.

Oil now costs more than $75 a barrel, while the equivalent amount of natural gas costs just $25. "I don't see that gap closing any time soon," Mr. Scaroni said.

To be sure, most long-term contracts for natural gas—such as those between Russia's OAO **Gazprom**, the world's largest gas producer, and its European customers—are indexed to the price of oil.

But there is now a big disparity between the long-term contract price of gas and the spot price.

Mr. Scaroni said that 18 months ago, he would have said the European market for natural gas would grow by 2% a year, as domestic production fell and demand for the clean-burning fuel rose. At that time, LNG cargoes were selling in East Asia for $20 per million BTUs, he said.

Since then, the demand outlook had changed dramatically. Germany is poised to backtrack on its decision to phase out nuclear power, meaning less demand for gas in Europe's largest economy, he said. Meanwhile, it is likely that the same technology that has been used to open up shale gas in the U.S. can now be used to develop unconventional gas resources in Europe, meaning more supply.

Finally, because the U.S. is importing much less LNG, cargoes of the fuel are now being diverted to Europe, potentially leading to a glut that will put further downward pressure on prices.

Edison sees boost from new Italian natural-gas terminal

By Liam Moloney

ROME—**Edison** SpA is close to shaking off its reliance on natural-gas supplies from its main competitor, **Eni** SpA, thanks to Italy's new liquefied-natural-gas terminal and expects to sell gas abroad in a few years, Chief Executive Umberto Quadrino said Tuesday.

The new Rovigo terminal, which has an annual capacity of eight billion cubic meters of liquefied natural gas, will "significantly reduce" Edison's dependence on supplies from Eni, Mr. Quadrino said in an interview, speaking at the terminal's inauguration.

Edison is expanding its international gas investments as part of its efforts to wean itself off relying on Eni, Italy's former monopoly. Last year, Edison won the tender for Egypt's Abu Qir field in a deal valued at $3.1 billion and it is taking part in the possible Galsi pipeline project, which aims to initially supply Italy with eight billon cubic meters of Algerian gas a year.

As more European electricity generators opt to be fired by gas, instead of fuel oil and coal, Edison sees profit opportunities in securing supplies of the low-emission fossil fuel.

Edison has a 10% stake in the new Rovigo facility, while Exxon Mobil Corp. and Qatar Petroleum each own 45%. The Italian energy company will use 80% of the terminal's capacity, or 6.4 billion cubic meters, for 25 years, while the remaining 20% will be offered to third-party operators.

Associated Press

Edison CEO Umberto Quadrino at the Italian company's new offshore LNG terminal off the coast of Venice.

The offshore terminal, based near the northeastern Italian town of Rovigo, will start operating in November and will run at full capacity this year, Mr. Quadrino said.

The move means Italy now becomes one of the most important markets for gas from Qatar—a leading global supplier of liquefied natural gas—with the opportunity of becoming an entry point for imports to Europe.

Edison forecasts it will sell gas to other European Union countries by 2016 as new gas infrastructure in Italy boosts supplies, Mr. Quadrino said.

Edison, which is controlled by **Electricité de France** SA and Italian municipal utility A2A SpA, estimates its gas supplies will reach 23 billion cubic meters in 2013 from the current 13 billion cubic meters.

Mr. Quadrino said he expects Italian gas margins to be weak in the next two to three years amid "modest" demand and increasing supplies from new import projects. Demand for gas world-wide has declined amid the wider economic downturn.

Mr. Quadrino said "all interested parties are working" on reaching a transit agreement with Turkey for the ITGI gas pipeline connecting Italy to the Caspian area through Greece and Turkey. Edison is leading the efforts for the ITGI project. The CEO said he hopes coming meetings between Italy and Turkey will help.

The Milan-based company is also working on getting Azerbaijan to award gas supplies from the Shah Deniz II field, Mr. Quadrino said. "We plan to get them," he said.

Russia's pipeline plans move ahead with approvals by Denmark, Turkey

By Jacob Gronholt-Pedersen

MOSCOW—Russia moved a step closer to realizing its two major export-gas pipeline projects under the Baltic and Black seas to Europe after receiving long-awaited approval from Denmark and Turkey.

Denmark gave the green light Tuesday to construct the Nord Stream in its section of the Baltic Sea, becoming the first country to clear the project.

Countries bordering the Baltic have worried that the pipeline would pose a threat to the environment, but Russia has said it expects remaining countries—Finland and Sweden—to approve the project by the end of the year.

Meanwhile, Russia's attempt to push through the South Stream pipeline—a sister project to the Nord Stream—has proved more difficult. With Turkey's approval Monday, however, Russia expects a feasibility study on the pipeline to be finished in the beginning of 2010, while actual construction will begin by year-end.

The pipeline is to supply gas from the Black Sea's Russian coast under the sea to a distribution point in Bulgaria and is scheduled to start deliveries in 2013.

Turkey's approval came after Bulgaria's new conservative government threatened to reconsider an already-agreed pipeline deal with Russia.

Russia is seeking to cement its role as Europe's main energy supplier by building the two gas-export routes under the Baltic and Black seas—bypassing countries countries like Ukraine and Belarus that it considers potentially troublesome.

Europe depends on Russia for about a quarter of its gas needs,

Russia said it expects Finland and Sweden to approve Nord Stream this year.

and critics have said the new pipeline projects will increase Europe's dependence on Russia—the world's biggest energy exporter. Confidence in the country as a reliable supplier has fallen after supplies to Europe were cut off in January during a pricing dispute with Ukraine, Russia's main transit route to Europe.

On Tuesday, Russia gained final approval from Serbia, a transit country for South Stream, during a visit to Belgrade by Russian President Dmitry Medvedev.

Last year, Russia's state-controlled gas monopoly OAO **Gazprom** bought Serbia's major oil and gas assets and agreed to route its South Stream gas pipeline through Serbia.

The realization of South Stream now appears more likely than that of the rival European Union-backed Nabucco pipeline project, which is to ship Central Asian and Middle Eastern gas to Europe via Turkey, but avoiding Russia. Nabucco, however, faces problems securing supplies from the region.

Individual EU members' willingness to expand energy ties with Moscow comes despite concerns in Brussels about growing dependence on Russian gas.

The Nord Stream pipeline was agreed between Russian Prime Minister Vladimir Putin and former German Chancellor Gerhard Schröder, who now heads the company behind the pipeline. German energy companies **BASF** AG and **E.On** AG are partners in the project. Italian Prime Minister Silvio Berlusconi is a strong supporter for the South Stream pipeline, which has **ENI** SpA as a partner.

LEADING THE NEWS

Qatar fund sells stake in Barclays

Investment firm converts warrants, retains 7% holding

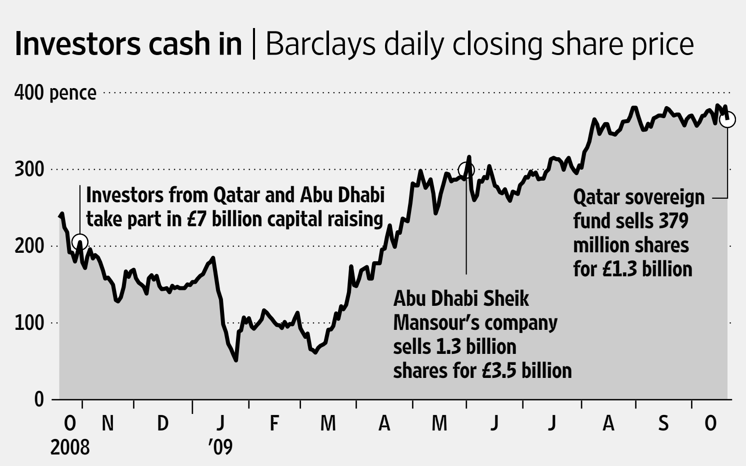
By Sara Schaefer Muñoz

LONDON—Qatar's sovereign investment fund sold a £1.3 billion ($2.1 billion) stake in **Barclays** PLC, the second large share sale in recent months by Persian Gulf investors who bought into the bank last fall as it scrambled to raise capital at the height of the financial crisis.

The fund, Barclays's largest shareholder, sold 379.2 million shares in converting half of the warrants it received a year ago at an exercise price of 197.77 pence apiece, almost doubling its investment. The fund will continue to hold about a 7% stake in Barclays, as well as the rest of its warrants, which expire in 2011.

Barclays Capital and **Credit Suisse Group** managed the offering.

Following news of the sale, Barclays shares fell 4.8% to 363.75 pence on the London Stock Exchange. Other bank shares also slipped, and some analysts said the move by the Qatari fund could signal that bank stocks have started to peak.



Source: Thomson Reuters Datastream

Ahmad Al-Sayed, the chief executive and managing director of **Qatar Holding** LLC, said the decision "does not impact our current intention to remain a long-term, strategic shareholder in Barclays."

Barclays Chief Executive John Varley said the deal would broaden the bank's shareholder base and keep Qatar Holding as "a key partner."

A year ago, Barclays executed a quick £7 billion capital-raising from Qatar Holding, a member of Abu Dhabi's royal family and other investors. The move, criticized by some of the bank's shareholders at the time as too expensive and exclusionary, enabled Barclays to forgo direct government support.

In June, Sheik Mansour Bin Zayed Al Nahyan of Abu Dhabi sold 1.3 billion in Barclays shares he obtained through convertible notes, reaping a £1.5 billion profit and sending Barclays share price down 14% that day (the bank's shares subsequently recovered). The sheik still owns about £1.5 billion in securities resembling preference shares that were part of the initial investment, as well as warrants on more than 700 million shares.

Barclays stock dropped around 70% in the months after the Middle Eastern investors came on board. Since January, however, the price has risen roughly sixfold, placing the Qatari investment deeply in the black.

A person close to the matter said the fund decided to cash in its holding in a move to diversify its portfolio, rather than over any concerns about the bank or share price.

The sale fueled speculation that the Qatari fund might add to its stake of U.K. grocer **J Sainsbury** PLC. The fund already owns 26% of the food retailer's shares. A takeover bid in 2007 by the Qatari fund failed over disagreements on the company's pension fund structure.

Shares of Sainsbury rose 5.4% to 347.80 pence on the London Stock Exchange.

Qatar has enjoyed years of high natural-gas prices. Gas prices have fallen more recently, but much of Qatar's output is locked up into longer-term contracts that would shield it from short-term volatility.

King repeats call to split up banks that are too big

By Natasha Brereton

Bank of England Governor Mervyn King said heightened regulation couldn't prevent financial speculation that results in bank failures, and called for large banks to be split up so that governments could more cleanly support their socially important activities.

"The sheer creative imagination of the financial sector to think up new ways of taking risk will in the end, I believe, force us to confront the 'too important to fail' question," Mr. King said in a speech to Scottish businessmen Tuesday. "The belief that appropriate regulation can ensure that speculative activities do not result in failures is a delusion."

Mr. King has already expressed his worries about the risks inherent in large financial institutions, notably in a speech in June. On Tuesday, Mr. King said the capital requirements that regulators can impose on large banks to ensure they will survive a financial shock are often arbitrary.

The unpredictability of crises makes it hard to know how much capital would be appropriate, and allowing too-important-to-fail institutions to exist would probably necessitate a special resolution regime for all banks that could fall into this category, he said.

The other option, Mr. King said, would be to draw a clear distinction between utility banking and other activities that can be left to the control of market discipline, restricting government guarantees to what he deemed banks' socially necessary functions.

"There are those who claim that such proposals are impractical. It is hard to see why," Mr. King said, noting that prudential regulation already distinguishes between different types of banking activities.

While he welcomed growing global support for banks to write living wills that would outline how they could be unwound in the event of their failure, "without separation of the utility from other components of banking it will be necessary to develop detailed resolution procedures for a very wide class of financial institutions," he said.

Mr. King said there was a strong case for a "serious review" of the structure and regulation of the banking industry. He pointed out the high concentration of the U.K. financial sector by international standards, and expressed the hope that greater competition would result in "less rigidity" in the composition of the top four banks.

He also said that those banks that are being supported by the government must not be encouraged to try to "earn their way out" of that support by restarting the type of practices that got them into trouble initially.

Mr. King also said Tuesday that he expected to see "modest" growth in U.K. economic activity in the second half of this year, but that output was likely to stay "well below" levels seen last year for sometime to come.

The Conservatives' shadow finance minister, George Osborne, expressed support for Mr. King's analysis "of how the government's system for regulating banks failed and how there has been 'little real reform' since is one I share."

Iran balks at French role in enrichment pact

Associated Press

VIENNA—Talks meant to persuade Iran to send most of its enriched uranium abroad—and thus delay its potential to make a nuclear weapon—bogged down over strong Iranian resistance to French participation, diplomats said.

Tuesday was the second day of talks in the Austrian capital between Iran and the U.S., Russia and France over Iran's nuclear program. Discussions were delayed at least two hours in an attempt to resolve the impasse over the French.

Tehran says it needs enriched uranium for nuclear fuel but the U.S. and other nations fear that could be used to make weapons. The U.S. says Iran is one to six years away from being able to do so. Iran had signaled earlier that it might not meet Western demands for a deal under which it would ship most of its enriched material out of the country.

But a more immediate problem appeared to be Iranian insistence that France be excluded from any participation in plans to turn the enriched material into fuel for Tehran's research reactor, diplomats said. One diplomat suggested the talks could fail unless the problem was resolved.

Iran, which holds a 10% share in a nuclear plant in France, came to the talks vociferously critical of French President Nicolas Sarkozy's government for withholding enriched uranium from that facility. Areva SA, the state-run French nuclear company, has described Iran as a "sleeping partner" in the plant, which Tehran bought into more than three decades ago.

Associated Press

Frederic Mondoloni, head of the French delegation, left, walks with Iran's ambassador to the IAEA, Ali Asghar Soltanieh, right, at a Vienna meeting Tuesday.

Iran is under three sets of United Nations Security Council sanctions for defying demands that it freeze uranium enrichment. The sanctions include embargoes on all shipments of sensitive nuclear materials or technology.

In Tehran, Iranian Foreign Minister Manouchehr Mottaki played down the problem. "There are side issues ... with France," he told reporters. "We will talk about it when time is right."

As the meeting was about to reconvene, diplomats said discussion was focusing on a possible compromise that would involve Russia signing a deal with Iran to enrich the material and then "subcontracting" to France to turn it into fuel rods. That would formally meet Tehran's concerns Paris not be directly involved.

International Atomic Energy Agency chief Mohamed ElBaradei said the negotiations between Iran and the U.S., Russia and France got off to a "good start" Monday. However, three diplomats familiar with the discussions suggested little was accomplished besides outlining both sides' positions.

If Iran does what the West says it has already agreed to do, it would turn over more than 2,600 pounds (1,200 kilograms) of low-enriched uranium—as much as 75% of its declared stockpile. Tentative plans would be for further enrichment in Russia and then conversion in France into metal fuel rods for Iran's nuclear reactor.

Iran's agreeing to ship most of its enriched uranium abroad would significantly ease fears about Iran's nuclear program, since 2,205 pounds is the commonly accepted amount of low-enriched uranium needed to produce weapons-grade uranium.

Based on the present Iranian stockpile, the U.S. has estimated Tehran could produce a nuclear weapon in 2010 to 2015, an assessment that broadly matches those from Israel and other nations.

Beijing Auto distances itself from employee held in spying

By Patricia Jiayi Ho

BEIJING—**Beijing Automotive Industry Holding** Co., in its first comments after a high-profile arrest of one of its employees in an industrial-espionage case, asserted its respect for intellectual-property rights.

The statement from the auto maker, China's fifth largest by sales volume, appeared to be an attempt to pre-empt suggestions that it may have benefited from the alleged theft of trade secrets from **Ford Motor** Co.

Beijing Auto said it is closely watching the case involving its employee, Yu Xiangdong, also known as Mike Yu, who last week was arrested and indicted in the U.S. on charges he stole trade secrets from Ford.

Beijing Auto "has always respected and protected intellectual property rights," it said in the statement. "In the development of own-brand cars, the company has always stressed the cultivation of innovation abilities."

Mr. Yu, who was once a product engineer at Ford, joined Beijing Auto's research division in November last year on a three-year contract, the statement said.

His duties mainly involve computer-aided engineering and automotive-body design, it said, adding that Mr. Yu applied for leave on Oct. 13 to visit the U.S.

Mr. Yu, 47 years old, worked for Ford from 1997 to 2007 and had access to trade secrets at the U.S. auto maker, including design documents, according to a federal indictment.

Just before leaving Ford, Mr. Yu copied about 4,000 documents onto an external hard drive, the indictment alleges. Mr. Yu took Ford design documents to China to assist in his efforts to find work with a Chinese auto company, the court papers say.

CORPORATE NEWS

Adecco buys MPS for $1.3 billion

Swiss company widens its lead among staffing firms, becomes more resilient

BY GORAN MIJUK

ZURICH—Staffing company **Adecco** SA on Tuesday said it has bought U.S.-based **MPS Group** Inc., a specialist in placing professional workers, for $1.3 billion.

The deal extends Adecco's lead as the world's biggest staffing company by revenue and makes it more resilient to the economic downturn that has hammered recruitment markets. It also marks a new phase in the consolidation of the fragmented staffing market and gives Adecco a greater presence in the U.S., the home market of its closest rival, **Manpower** Inc.

However, the Swiss company said this would also be its last major acquisition for a while as it seeks to preserve cash and its investment-grade rating.

MPS reported $2.2 billion of revenue in 2008, adding to the €20 billion ($30 billion) that Adecco generated. Manpower reported 2008 revenue of $22 billion.

Staffing markets have contracted in the past year as companies have stopped hiring or laid off workers in response to the economic downturn. Recruiting companies such as Manpower and Adecco have seen revenue drops and have cut costs and some of their own employees.

But the downturn hasn't stopped some big staffing companies from buying smaller rivals as they seek to take advantage of cheap asset prices, position themselves for a recovery and buy operations that are more resilient to the downturn. Adecco earlier this year acquired U.K.-based recruiter Spring Group Ltd. for £108 million ($176.8 million), following last year's multibillion dollar takeover of Dutch recruiter Vedior by peer Randstand Holding NV.

Manpower in 2008 acquired companies in the Middle East and the U.S. During the credit crisis, however, the company shelved potential takeover plans.

The acquisition of MPS gives Adecco bigger professional-staffing operations—a high-margin business that places highly educated personnel such as medical staff and makes up about one third of the €200 billion annual global recruitment industry. Adecco expects the sector to grow in coming years.

Before the economic downturn, the professional-staffing industry grew at a rate of about 9% annually, while the placement of blue-collar workers rose about 3%, according to estimates by industry experts.

"With this takeover, we are strengthening our professional staffing business and profitability," said Chief Executive Officer Patrick de Maeseneire, who joined the world's largest recruiter earlier this year. "The ratio of the professional staffing business will move up to 25% from 17% at the moment."

MPS, of Jacksonville, Fla., generates the bulk of its sales by placing specialized staff in the information-technology, finance, and engineering industries in the U.S. and U.K. The companies expect the deal to be completed in the first quarter of 2010.

Adecco will pay $13.80 per MPS share, a 24% premium to the U.S. company's Monday closing price. To finance the acquisition, Adecco will launch a 900 million Swiss franc ($889 million) convertible bond. Standard & Poor's put Adecco's triple-B rating on negative watch and warned it could cut the rating to triple-B-minus. Adecco shares fell 5.3% ito 51.70 francs in Zurich.

"This takeover will be the last big acquisition for the time being," Adecco CEO de Maeseneire said in an interview. The acquisition will add to profit one year after the deal closes, Adecco said.

—Katharina Bart contributed to this article.

Old rivals

The acquisition of MPS strengthens Adecco's lead as the world's biggest staffing company by revenue ahead of U.S.-based Manpower.

	Manpower	Adecco
Founded	1948	1996*
Headquarters	Milwaukee	Zurich
Offices	4,100 in 82 countries	5,800 in more than 60 countries MPS: more than 220 in 12 countries
Employees	30,000	over 29,000 MPS: 3,500
CEO	Jeffrey A. Joerres	Patrick de Maeseneire
2008 revenue, in billions	$22 (89% from outside the U.S.)	$30 (13% from the U.S. and Canada) MPS: $2.2 (42% from outside the U.S., 34% from the U.K.)

*In 1996, Swiss Adia, founded in 1957, merged with French company Ecco, founded in 1964. Source: the companies

Employees enter the Adecco headquarters

Price battles take their toll on Ahold sales

BY MAARTEN VAN TARTWIJK AND ANNA MARIJ VAN DER MEULEN

AMSTERDAM—**Ahold** NV posted a smaller-than-expected 4.3% rise in third-quarter sales amid mounting price wars in the U.S.

Netherlands-based Ahold, which earns about 60% of its revenue in the U.S., said that despite volume growth in all of its markets, sales were hit by "deflation and trading down by customers." It said that increased promotional activity continued, especially in the U.S.

In recent months, Belgium-based Delhaize Group SA has, along with U.S.-based rivals Supervalu Inc. and Safeway Inc., warned that price competition and the use of promotions is increasing. Delhaize operates the Food Lion, Hannaford and Sweet Bay chains in the U.S.

Ahold's sales in the three months ended Oct. 4 rose to €6.04 billion, or about $9 billion, from €5.79 billion a year earlier. A Dow Jones Newswires poll of seven analysts forecast sales of €6.07 billion. Stripping out currency fluctuations, sales were up 2.6%.

At Ahold's key U.S. chains, Stop & Shop and Giant-Landover, sales rose 1.9% to $3.98 billion. Translated into euros, net sales increased 5.5%. Ahold's Giant-Carlisle chain saw sales inch up 0.8% in the third quarter to $1.1 billion.

Sales at its Albert Heijn unit in the Netherlands were up 5.4% at €2.1 billion. However, sales in stores open at least a year dropped 0.4%.

Sales at the Albert/Hypernova chain in the Czech Republic and Slovakia, meanwhile, dropped 8% to €378 million, after the company shut a number stores as part of a restructuring program.

Catalog retailer Quelle to close, pinched by Web

A Wall Street Journal Roundup

NUREMBERG, Germany—German mail-order company Quelle is shutting down more than 80 years after revolutionizing the country's retail landscape, having missed customers' move to online shopping.

The unit of insolvent German retailer **Arcandor** AG failed to find new investors and will be closed, Arcandor's insolvency administrator Klaus Hubert Görg said on Tuesday.

Quelle employees will receive their final salary in October and will be dismissed on Nov. 1. "This is a particularly bad way of going broke," said Mr. Görg. He added that he was pleased he was at least able to pay out the final salary, which was originally meant to pay for merchandise.

Mr. Görg said there were originally 32 interested buyers for the unit, though that dwindled to four. With Quelle unable to deliver strong sales or a realistic business plan, those potential investors faded, too. Mr. Görg said he would have accepted even "a negative purchase price," but no party came forward.

"It's over, crying doesn't help," said Quelle employee Marianne Thieg. A colleague added: "Quelle is dead."

Quelle's foreign business is healthy and will "now be sold promptly in an independent sale process," the administrators said late Monday. At least half of the 10,500 employees of Arcandor's Primondo unit, which Quelle is part of, could lose their jobs, but no official figures have yet been given.

"Quelle is a tragic story, because the mail-order business in general works quite well," said Marco Atzberger, retail expert at the EHI retail institute. "They failed to integrate the online business properly and relied too strongly on the catalog business."

Quelle was founded by Gustav Schickedanz in 1927. Mr. Schickedanz named it after his business idea to sell products directly to the customers right from the source, or "Quelle," in German. But the emergence of the Internet took shoppers online, rapidly boosting sales of online retailers such as Amazon.com Inc. and EBay Inc.

Arcandor, which also owns the Karstadt department-store chain, filed for bankruptcy protection in June.

CORPORATE NEWS

PPR's sales show broad weakness

French holding company's revenue fell 7.6% in quarter, with most units affected

By Mimosa Spencer

PARIS—French holding company PPR SA reported a 7.6% decline in third-quarter revenue as sales slumped in almost all divisions, from its luxury-goods operations to its African car distributor.

The company, which has businesses stretching from mass-market catalog companies and Puma sportswear to high-end fashion brands including Gucci, Bottega Veneta and Yves Saint-Laurent, posted third-quarter sales of €4.56 billion ($6.81 billion), down from €4.94 billion a year earlier. The year-earlier figure excludes the contribution of assets sold.

The company didn't publish net-profit figures.

"PPR faced the convergence...of several unfavorable factors," Chairman and Chief Executive François-Henri Pinault said, citing a lackluster macroeconomic environment and lower tourist activity. He said the company would redouble efforts to revitalize its business units, with marketing initiatives, for example.

PPR this month announced plans to list CFAO, which distributes cars and pharmaceutical products across a stretch of Africa. The unit posted a 17% drop in quarterly sales to €598 million, hit by falling car sales.

The plans to spin off CFAO, which is valued at about €2.2 billion, analysts say, have increased speculation that the sprawling company wants to focus on its high-end consumer businesses.

PPR struggles to explain the logic of keeping such diverse activities. The company has sharpened its business focus on brands in recent years, selling off sprawling interests including department-store chain Printemps, cosmetics business YSL Beauté and computer retailer Surcouf. It has acquired German shoe and sportswear company Puma AG.

The company's vast retail operations have been hit hard by the economic crisis. Its Redcats catalog division, which sells large-sized clothing in the U.S. and household brands in Europe, reported a 10% drop in sales, to €753 million.

Book retailer FNAC, the only unit to eke out growth, posted €977 million in revenue, up 0.4%.

Sales at PPR's luxury division fell 6.4%. Amid the economic turmoil, retailers have reduced inventory and delayed orders, affecting fashion companies across the sector.

Analysts have begun increasing their forecasts for the luxury-goods sector on signs the drop-off in sales of high-end goods may stabilize. Industry giant LVMH Moët Hennessy Louis Vuitton SA on Monday said third-quarter sales slipped 0.6%.

PPR shares closed at €85.17 Tuesday. They have risen over 80% since the beginning of the year, largely outpacing the CAC-40 index, up just over 20% over the period.

Bloomberg News

The FNAC retail chain, which sells books, music and DVDs, was PPR's only unit to show revenue growth—but barely.

EADS chooses NASA ex-chief to run U.S. unit

By August Cole

International defense giant **European Aeronautic Defence & Space** Co. has tapped a former Bush administration official to run its fast-growing U.S. operations, but is keeping the unit's current chief executive on board to help it compete for a $40 billion U.S. Air Force contract.

EADS said Tuesday that former NASA head Sean O'Keefe, 53 years old, will become CEO of EADS North America. As of Nov. 1, he will succeed Ralph Crosby, 62, who will remain chairman of the EADS business.

Mr. O'Keefe was administrator of the U.S.'s National Aeronautics and Space Administration from 2001 to 2005 under President George W. Bush, and also served as Navy secretary and Pentagon comptroller under President George H.W. Bush.

Mr. O'Keefe comes to EADS from a senior role in **General Electric** Co.'s Washington operations.

EADS Chief Executive Louis Gallois said at a press conference in Washington that Mr. O'Keefe will be responsible for increasing business with the Pentagon and Homeland Security Department, as well as guiding the company into space and related areas.

Mr. Gallois said expanding the executive suite will also help EADS be seen more as an "American citizen" in the U.S. The move comes as the company's U.S. growth is creating political friction with homegrown rivals such as **Boeing** Co. that until recently haven't had to contend with a major EADS presence in the U.S. defense market, the world's biggest.

The Obama administration has just kicked off a politically contentious process to award an Air Force contract worth at least $40 billion to supply civilian jetliners modified into flying fuel stations. EADS is teamed with Northrop Grumman Corp. and beat out Boeing for the contract last year. A successful appeal by Boeing to the Government Accountability Office overturned the win last summer,and the selection process is beginning again this fall.

Mr. Crosby's focus will be on securing another victory, which would vault EADS into the big leagues of Pentagon contracting and give its Airbus subsidiary a manufacturing foothold in the U.S.

Airbus plans to assemble modified A330 aircraft in Alabama, which has given the company a solid political base in that state as it and Northrop battle Boeing's political supporters from Washington state and Kansas.

HAL to inject funds into Safilo of Italy

By Enza Tedesco

Italy-based **Safilo** Group SpA, maker of Gucci and Dior eyewear, said its board approved a recapitalization plan under which Dutch shareholder **HAL Holding** NV would end up owning as much as half the company.

HAL will inject new funds of about €280 million, or about $420 million, which Safilo will use to strengthen its capital structure and partially repay about €185 million of debt. HAL, which holds 2% of Safilo, will increase its stake to between 37.23% and 49.99%, Safilo said late Monday.

HAL will buy €195 million of outstanding high-yield 2013 notes issued by Safilo Capital International. The recapitalization is conditional on the successful completion of HAL's cash tender offer on the notes, which needs to reach an acceptance threshold of at least 60%. Failure to reach that threshold would trigger a series of new steps, including a rights issue for a total of €250 million.

Safilo also agreed on the restructuring of its senior debt facilities, through an arrangement with its main financing banks, Intesa Sanpaolo SpA and Unicredit SpA. The company's €300 million senior debt facilities with those banks will be extended to June 30, 2015 from Dec. 31, 2012.

The eyewear maker also agreed to sell HAL some of its noncore retail chains, such as Loop Vision in Spain, Just Spectacles in Australia and its retail activities in China. In addition, it will sell HAL its Sunglass Island and Island Optical shop chains in Mexico. The move would free up Safilo to concentrate on production and licenses while HAL handles distribution.

Safilo also reported weak third-quarter earnings, citing challenging and uncertain market conditions. The company's revenue for the three months ended Sept. 30 declined 7% to €213 million from the year-earlier period. Earnings before interest, taxes, depreciation and amortization fell to €3.5 million from €16.7 million.

Lockheed forecasts earnings will decline next year

By Ann Keeton

Slower spending growth at the U.S. Defense Department led **Lockheed Martin** Corp. to forecast a decline in earnings next year, Chief Financial Officer Bruce Tanner said as the company reported a 1.9% increase in third-quarter profit.

United Technologies Corp.'s quarterly profit, meanwhile, fell 17% on continued sales weakness.

A number of Lockheed's defense contracts, such as for the U.S. presidential helicopter, have been canceled this year, leading to a near-term slowdown in overall revenue growth.

But "there could be upside in both our information-systems and global-services, and aeronautics businesses," especially if the pace of contract protests slows down, Mr. Tanner said Tuesday.

Pentagon support for Lockheed's F-35 jet fighter and other large programs bodes well for the Bethesda, Md., contractor in the long term, Mr. Tanner said.

The company raised its 2009 earnings forecast by 25 cents to $7.40 to $7.60 a share and stood by its revenue outlook of $44.7 billion. Lockheed projected 2010 earnings of $7.05 to $7.25 a share on revenue of $46.3 billion to $47.3 billion.

He said the company's aerospace operation next year is likely to overtake information-systems and global services as Lockheed's largest business unit. "But it's good to have some sibling rivalry," he said.

Lockheed posted a profit of $797 million, or $2.07 a share, compared with $782 million, or $1.92 a share, a year earlier.

Revenue increased 4.5% to $11.06 billion.

At United Technologies, the earnings decline came even as a slowdown in orders earlier in the year appeared to have stabilized.

The company said cost cuts will lead to earnings growth next year as the world economy gets back on its feet. United Technologies' restructuring program. which cut 15,000 jobs, has cost $800 million this year, more than earlier forecast.

"The question really is: What is going to happen with revenues?" Chief Financial Officer Greg Hayes said in a conference call. "Obviously, if revenue comes in strong, there's going to be a lot of tailwind for us."

"The fact is," he said, "we're going to keep a lid on costs until we see revenues solidly returning."

The Hartford, Conn., company—whose products include Otis elevators, Sikorsky helicopters and Pratt & Whitney jet engines—reported a profit of $1.06 billion, or $1.14 a share, compared with $1.27 billion, or $1.33 a share, a year earlier. The latest results included 13 cents a share in restructuring costs after gains, compared with three cents a year earlier.

Revenue fell 11% to $13.38 billion.

Mr. Hayes said United Technologies still has $2 billion set aside this year for mergers and acquisitions. "I feel better about the M&A market than I have in a long time," he said. The company has used only about one-quarter of its 2009 M&A budget.

Sikorsky helicopter division was the only segment to post gains, with revenue up 15% and earnings climbing 18%.

CORPORATE NEWS

Beer's glory days fade at Femsa

Mexican brewer looks to alliances as its focus shifts

By Jose de Cordoba
And David Kesmodel

MEXICO CITY—The Dos Equis beer ad campaign, "The Most Interesting Man in the World," has gone viral in the U.S., helping to boost sales of the Mexican import.

But in Mexico, few consumers have ever heard the suave gentleman's advice on topics such as careers—"find out what it is in life that you don't do well, and then don't do that thing"—followed by a pitch: "Stay thirsty, my friends."

Lack of marketing imagination at home is one reason why Femsa, the company that makes Dos Equis, has been overtaken south of the border by archrival **Grupo Modelo** SAB, maker of Corona beer. But some industry watchers also say Femsa—whose formal name is **Fomento Economico Mexicano SAB**—has lost its love for the beer business, with its convenience stores and Coca-Cola bottling business moving front and center.

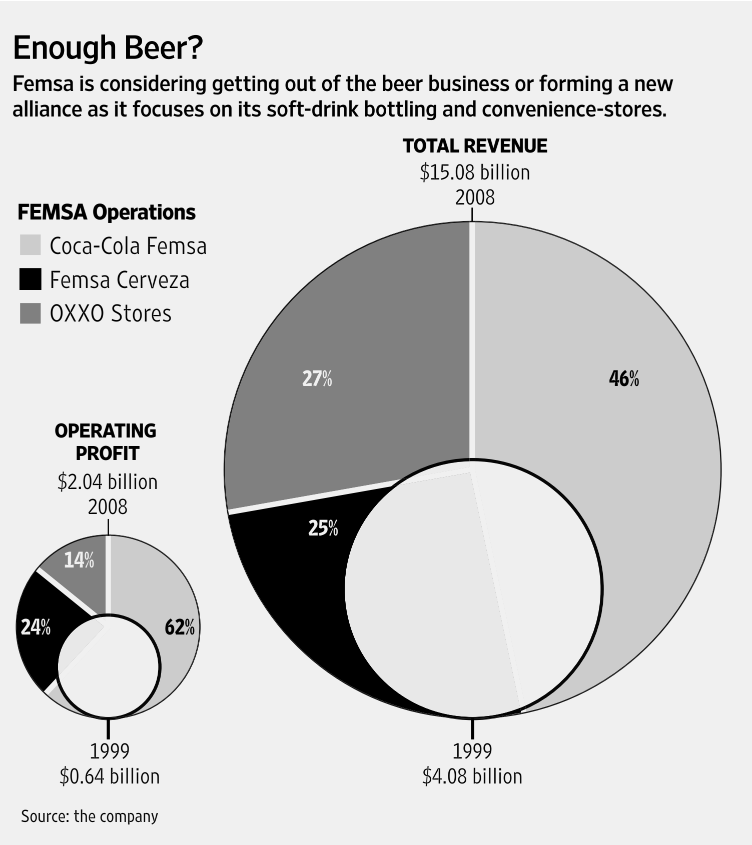
In the past two decades, Femsa—which also makes Sol, Tecate, Indio, and Bohemia—has seen its share of Mexico's beer market fall to 43% from a once-dominant 55%. Modelo overall has a 57% share, with its Corona brand accounting for 31% on its own.

Femsa recently acknowledged it was contemplating selling its beer business or making a strategic alliance with one of the world's brewing giants. Companies including London-based **SABMiller** PLC, as well as Femsa's long-time partner, **Heineken** NV, based in Amsterdam, are holding talks with Femsa, according to people familiar with the matter. Any deal is likely to be done using stock, rather than cash, one of the people said, meaning Femsa's owners would continue to have a stake in an enlarged beer business.

Femsa officials declined to comment.

Analysts say a key reason Femsa is considering teaming up with a bigger brewer is that the landscape of the beer business has changed rapidly. Increasingly, the global market is dominated by giants such as **Anheuser-Busch InBev**, and SABMiller, companies created by international mergers that dwarf Femsa. Family-run Femsa has annual beer sales of about $4 billion, compared with roughly $35 billion and $21 billion at Anheuser-Busch InBev and SABMiller, respectively.

And last year, when InBev bought Anheuser-Busch Cos. for about $52 billion, it took over Anheuser-Busch's 50% non-controlling stake in Grupo Modelo, giving Femsa's rival a new deep-pocketed uncle. Analysts believe it's a matter of time before Modelo is taken over fully, a move that would increase competitive pressure on Femsa.



Femsa's convenience-store division has been growing rapidly while its beer market share has dropped.

Femsa has partners of its own, but the scale is much smaller. In the U.S., for example, Heineken USA markets and sells Femsa products. (Indeed, it was Heineken USA and its ad agency, Havas SA's Euro RSCG, that came up with the Most Interesting Man campaign.) But Heineken USA's total share of the U.S. market, including Femsa brands, is only about 4%.

Although Femsa's beer business has been lagging, the company is doing well in its two other main business lines: soft drinks and convenience stores. Last year, it had operating profits of $2 billion on revenue of $15 billion, and in the last decade, both revenue and profits have surged seven fold. But 55% of Femsa's operating cash flow came from its Coke bottling operations and just 31% came from its beer sales. Its OXXO convenience stores accounted for the remaining 14%. The company is expected to release third-quarter earnings Oct. 28.

Femsa is one of Mexico's most storied companies. The city of Monterrey grew up around Femsa's predecessor company, Cerveceria Cuauhtémoc, founded in 1890. Most of Monterrey's modern companies are offshoots of Femsa, whose name translates as "Mexican Economic Development Inc." —a name that hints at the company founders' ambitions and purpose.

A former chairman of Femsa's predecessor company, the late Eugenio Garza Sada, is revered in Monterrey as the city's secular patron saint. Among his accomplishments is the founding of the Tec de Monterrey, modeled on the Massachusetts Institute of Technology, in 1943. Femsa's current CEO and chairman, Jose Antonio Fernandez, came to Monterrey to study at the TEC and married the oldest daughter of former Femsa chairman Eugenio Garza Laguera, the son and heir of Mr. Garza Sada.

Mr. Fernandez, who took the helm at Femsa in 1995, is considered a pragmatic, outward-looking businessman, less tethered to the traditions and family ties of conservative Monterrey. Under Mr. Fernandez, commonly known by his childhood nickname of "the Devil Fernandez," Femsa has placed less emphasis on beer.

"The Devil has a love affair with his two new babies, Coca-Cola and Oxxo," says Ernesto Canales, a Monterrey corporate lawyer.

Femsa has been partners with Coca-Cola Co. since 1993 and is now Coke's second largest bottler worldwide, and the largest soft drink company in Latin America.

Analysts say that tradition-bound Femsa would never have sold its beer business as long as Mr. Garza Laguera, Mr. Fernandez' father-in-law, was alive. But Mr. Garza Laguera's death last year at the age of 84 makes possible a sale or a strategic alliance with a major brewer.

"It was clearly written on the wall that the moment Don Eugenio was no longer with us, they were going to try to sell the thing," says one Monterrey-based banker.

Mr. Fernandez has put much of his focus on the OXXO convenience stores. The chain's revenue has multiplied from just $421 million in 1998 to $4.2 billion in 10 years.

It's by far the largest convenience store chain in Mexico and counts 6,811 stores.

OXXO has played a key role in defending Femsa's market share, as it provides points of sale for Femsa's beers. Indeed, some analysts fear Femsa's share of the beer market would have fallen much more had it not been for the support from OXXO stores.

—Dana Cimilluca and Nicholas Casey contributed to this article

Caterpillar cites signs of an upturn

By Bob Tita

Caterpillar Inc. on Tuesday provided one of the most bullish assessments of prospects for a global economic recovery as the U.S. heavy-equipment maker exceeded third-quarter profit expectations by a wide margin.

The company said it was preparing for a recovery that could be "rapid" after cutting costs amid a slide in demand for its earth-moving and construction equipment.

Caterpillar forecast global gross-domestic-product growth of 3% in 2010, led by 5% growth in the developing economies that drove sales during the commodity-led boom. The company expects GDP growth of about 2% in the developed economies of Europe, the U.S. and Japan.

Caterpillar predicted that its sales and revenue in 2010 will rise by 10% to 25% from about $32.5 billion expected in 2009.

"We are seeing encouraging signs that indicate a recovery may be under way," said Chairman and Chief Executive Jim Owens. "This has been the mother of all recessions of our working lifetimes."

Caterpillar's outlook is more bullish than many in the manufacturing sector, relying in part on the impact of government stimulus programs peaking in the first half of next year, with the prospect of additional support measures and a recovery in the U.S. housing market.

"There's enough economic and fiscal stimulus out there to create uncertainty about our top line," Mr. Owens said during a conference call with Wall Street analysts.

Global economies are likely to remain fragile and weak into 2010, Mr. Owens said, and he cautioned central banks against raising interest rates and reducing balance sheets too quickly. Caterpillar contends that spare production capacity and high levels of unemployment make rising inflation a minimal threat.

Caterpillar said its third-quarter earnings fell 53% to $404 million, or 64 cents a share, from $868 million, or $1.39 a share, a year earlier. Revenue fell 44% to $7.3 billion from a record $12.98 billion. Analysts had expected earnings of six cents a share on $7.48 billion in sales.

The company now expects to earn $1.85 a share to $2.05 a share, excluding costs for layoffs and idle plants, compared with its previous prediction of $1.15 a share to $2.25 a share.

Caterpillar shares were up 3.5%, or $2.01, at $59.56 in late trading on the New York Stock Exchange.

Coca-Cola profit curbed by currencies; sales fall 4%

By Valerie Bauerlein
And Anjali Cordeiro

Coca-Cola Co. posted flat third-quarter profit and a slip in revenue as the beverage giant continued to be hurt by fluctuations in global currencies and slow consumer spending in the U.S., Japan and Western Europe.

Still, Coke's namesake soda enjoyed a 2% gain in volume sales world-wide.

Outside the U.S., volume sales were strong in some emerging markets, with a 15% increase in China, driven by juices and Sprite, and 37% in India, where all product categories did well.

Coke depends on its international business for 80% of its revenue, giving the company a broad perspective on consumer habits. Chairman and Chief Executive Muhtar Kent said in an interview that the economic slowdown "has been forgotten" in fast-growing markets, including China, India, Vietnam and Brazil.

On the other hand, consumers in the U.S. and other mature markets are still rattled by the state of their portfolios and their savings accounts, despite early signs of an economic recovery. "There is a lag until it impacts the consumer in a positive way," he said.

In the U.S., its biggest market, Coke has been improving its distribution and mix of products, from new types of juices to more choices of single-serve sodas, such as a 99-cent 16-ounce bottle, Mr. Kent said.

North American sales volume sagged 4%, hurt by weak sales of Dasani water, as consumers turned to tap water or private-label brands. Analysts estimated that sales of Dasani are down more than 20% in the first nine months of the year. Dasani helped drive Coke's U.S. sales for nearly a decade.

Mr. Kent said multipacks of bottled water have become a commodity. He said enhanced waters such as SmartWater with added nutrients and ready-to-drink teas should help offset declines, though they are much smaller players by volume.

Coke's quarterly profit was flat from a year earlier at $1.89 billion, or 81 cents a share. Earnings included charges of a penny a share in the latest quarter and 2 cents a share in the year-earlier period for restructuring and other charges.

Revenue decreased 4% to $8.04 billion as volume rose 2%. Overall international volume was up 4%. Currency shaved operating income by 11 percentage points.

The company signaled that the pressures from foreign-exchange effects that it has felt since late last year will ease soon, because the dollar is weakening.

ECONOMY & POLITICS

Britons face threat of major postal strike

Royal Mail management and workers continue talks over pay and the implementation of a modernization plan

BY PAUL SONNE

LONDON—Britons were hoping for a last-minute deal between the state postal service and unionized workers threatening to go on strike Thursday. A sustained walkout would damage the U.K. economy ahead of the busy holiday season and could accelerate the shift away from traditional mail service.

Talks were continuing Tuesday between Royal Mail management and workers, and an agreement had yet to be reached, said a representative for the Communication Workers Union, which represents U.K. postal workers. CWU bosses were scheduled to meet Wednesday afternoon to make a decision on whether the strike will go forward.

The union has said 42,000 workers will strike Thursday if disagreements over pay and state-owned Royal Mail's modernization plan aren't resolved. A further 78,000 employees, mostly delivery staff, are set to strike the following day.

Cheap private-shipping alternatives, competition from the Internet, and rising pension costs have dealt a blow to the U.K. postal service, which now delivers 75 million letters and packages each day, down from 84 million a day three years ago.

Already, the recession was projected to bring as much as a 10% decline in mail volumes and potentially result in a £700 million ($1.15 billion) drop in revenue in the fiscal year ending March 31, 2010, according to the Royal Mail Group's annual report.

"One thing this company cannot afford is strikes and industrial action," said U.K. business secretary Lord Peter Mandelson on Tuesday. Coming off a thin profit last year, Royal Mail's finances "will be plunged into the red," he said.

Lord Mandelson said a strike would drive customers further away from the U.K. postal service. He called on a third party to mediate.

A number of U.K. lawmakers have called for the privatization of Royal Mail.

A major walkout could devalue the company and make it more difficult to transfer it to private hands. The U.K. government agreed in 2007 to lend the organization £1.2 billion to finance a modernization of its business. That modernization program has come under fire by the CWU, which says workers should have more say in the management's decisions regarding the plan.

Meanwhile, British consumers are taking the brunt of the disagreement. Localized strikes, mostly in London, have been taking place since June, with millions of undelivered items already stuck in the capital's mail system.

Watchdog groups in the U.K. began issuing tips on surviving the postal strike this week, advising customers to hand-deliver packages to the post office, pay bills in person and report overflowing post boxes to Royal Mail.

Many are turning to private shipping companies. The U.K. express shipping agent **Nightfreight GB** Ltd. has seen a 150% jump in inquiries about its morning next-day delivery service, while the delivery company Hermes, part of **Parcelnet** Ltd., witnessed a 25% increase in orders last week.

Royal Mail's license requires it to follow a policy of universal service, meaning that customers must be able to post letters to any place in the country for the same flat rate. The policy also guarantees daily delivery and pickup for almost all U.K. households, from Brighton in the south to Inverness in the north, six days a week.

In 2007, Royal Mail applied to the British postal regulatory commission, Postcomm, to introduce zone pricing, which would make it more expensive to send mail to more remote places. But Postcomm rejected the plea on the grounds that the plan would be discriminatory. It has argued that the universal service policy is a commercial advantage, and not a burden, for Royal Mail.

Royal Mail employs over 160,000 workers, with an additional 26,000-plus people at the Royal Mail Group's separate parcel, logistics and post office businesses. The company said it has plans to hire 30,000 temporary workers if the strike goes forward.

With almost 12,000 post offices in the U.K., Royal Mail delivers items to 28 million addresses on a daily basis. The average U.K. household spends 50 pence a week on postage.

Modern post

Nations have taken different approaches to their mail services

Austria
Network size: 1,330 mail centers
Ownership: 51% state, 49% private
Government support: None

France
Network size: 17,052 mail centers
Ownership*: State-owned company
Government support: Reduced local taxation (85%)

Germany
Network size: 12,628 mail centers
Ownership: Privatized in 2000; minority government stake
Government support: None

U.K.
Network size: 11,952 mail centers
Ownership: State-owned company
Government support: £376 million in payments in 2006-07

U.S.
Network size: 36,826 mail centers
Ownership: Federal agency
Government support: No subsidy; revenue must cover cost of operations

*Considering privatization; referendum held this month
Source: "Post Office Networks Abroad," U.K. Postal Services Commission, 2007. Some data may reflect earlier years.

Associated Press

A Royal Mail employee empties a post box in central London.

Court denies Polanski bid for release from jail

BY DEBORAH BALL

ZURICH—A Swiss court on Tuesday rejected Oscar-winning director Roman Polanski's appeal to be released on house arrest, raising the likelihood that he would remain in jail pending legal proceedings over his possible extradition to the U.S.

In his appeal, Mr. Polanski, who is being held here in relation to three-decade-old sex charges in the U.S., extended Swiss authorities several assurances that he wouldn't flee if released. He offered as bail his luxury ski chalet in the Swiss resort of Gstaad; volunteered to surrender his passport; and said he would submit to daily police checks.

But Switzerland's Federal Criminal Court decided that Mr. Polanski still constituted a flight risk.

Mr. Polanski, the director of films such as "Chinatown" and "Rosemary's Baby," fled the U.S. in 1978 after he pleaded guilty to having had sexual intercourse with an underage girl. Since then, he has lived in France, where he was born.

Associated Press

Roman Polanski, pictured in January. He was deemed a flight risk by a Swiss court.

Mr. Polanski, 76 years old, was arrested Sept. 26 when he arrived in Zurich to receive a prize at a film festival. U.S. officials have said they intended to seek Mr. Polanski's extradition. Under Swiss law, they have 60 days from the time of his arrest to file the formal request. Mr. Polanski has vowed to fight extradition, raising the possibility of a lengthy legal battle.

In its verdict, the Swiss court expressed concern that Mr. Polanski could leave Switzerland, possibly returning by helicopter or private plane to France, which refused for decades to extradite the director to the U.S. It decided that even a large bail might not stop him from fleeing Switzerland.

"The court considered the risk that Roman Polanski might flee if released from custody as high," the federal court said in a statement. "The bail offered by the appellant does not meet in its form the requirements set out by the law."

The court, however, said that Mr. Polanski could modify his offer of bail. He also has the right to appeal the verdict to the Swiss Federal Supreme Court. Legal experts say it is very rare for Swiss judges to release prisoners being held pending extradition.

Mr. Polanski's French lawyer, Herve Temime, said his client would continue to push for release. "We will try to put up better or larger guarantees and continue to try to show that there is no risk in releasing Mr. Polanski," he told French journalists Tuesday.

A Swiss newspaper reported last week that Mr. Polanski was brought to a local hospital for tests. Mr. Temime said he didn't know whether his client had returned to jail. Following a visit with Mr. Polanski earlier this month, Mr. Temime said the director was suffering from depression because of his incarceration.

Top U.S. court takes up appeal over Uighurs

BY JESS BRAVIN

WASHINGTON—The Supreme Court agreed Tuesday to consider whether unlawfully held Guantanamo detainees must be released in the U.S. if no viable alternative can be found, adding pressure to the Obama administration's efforts to close the prison.

The case involves a group of Uighurs, Turkic-speaking Muslims from China who were classified as enemy combatants after being captured in the Afghanistan-Pakistan border region. The U.S. no longer considers the men enemy combatants.

The Chinese government views Uighur separatism as a threat, and the U.S. has determined that they are likely to be persecuted if repatriated. But Washington has struggled to find countries in which to resettle the remaining 13 Uighurs.

Pakistan refugees surge

Thousands more flee attack on Taliban; Islamabad school hit

Thousands of refugees fled fighting between Pakistani soldiers and Taliban militants in South Waziristan Tuesday, raising fears of a humanitarian crisis compounded by dangerous conditions and the onset of winter weather.

*By **Zahid Hussain** in Islamabad and **Rehmat Mehsud** in Peshawar*

Aid agencies said there were as many as 150,000 refugees already, and the number could rise to 250,000 in coming weeks as the fighting intensifies.

Pakistan's military, spurred by a rash of militant bombings across the country, began an offensive this week against the main Pakistan Taliban faction in South Waziristan, which borders Afghanistan. The army had foreshadowed the campaign for months, and refugees began leaving the area in May in anticipation of fighting.

On Tuesday, six people, including two bombers, were killed in suicide-bomb attacks at the International Islamic University on the outskirts of Islamabad, the capital. One explosion took place inside a faculty building and the other at a women's cafeteria.

Rehman Malik, the federal interior minister, said the attacks were in retaliation for the military operation in South Waziristan. "The militants are testing our nerves," he said.

Early Tuesday, security officials said, Taliban militants recaptured Kotaki, the hometown of Hakimullah Mehsud, the chief of the Mehsud faction of the Pakistan Taliban—a loose umbrella organization of more than a dozen tribal factions.

Government forces, which had briefly held the town, were still controlling the hills surrounding it.

Some 30,000 government forces are fighting 10,000 insurgents in a battle that is being viewed as a test of the Pakistani military's resolve to fight the Islamic militancy. A military spokesman said 20 militants had been killed in the fighting since Monday. The report couldn't be independently confirmed.

Reuters

A policeman guards the scene of a bomb blast Tuesday at the International Islamic University in Islamabad, which killed six, including the two bombers.

Refugees—many who have left everything behind—fled to Dera Ismail Khan and Tank, the two major towns in North-West Frontier province on the border of South Waziristan. Aid workers said humanitarian access to the refugees remains the key challenge for the government given the volatile security environment in the area.

The government has yet to set up refugee camps and the displaced people are staying either with relatives or clansmen.

Registered refugees are getting cash or food items. But a large number of migrants have to find their own means to survive, said Faisal Ali Khan, head of FIDA, a nongovernmental relief organization.

Muhammad Shah Jahan, a 49-year-old wage laborer, said he fled his home in Khaisor village with seven family members after a shell hit his house, killing his 14-year-old nephew. The family walked on foot to reach Dera Ismail Khan. "We had no money and nowhere to go," he said.

He found shelter at the home of a fellow Mehsud tribesman. "But how long we can stay with our host?" he wondered.

The plight of members of the Mehsud tribe who don't have any relatives in the area is worse. Aid workers said there is visible hostility toward Mehsuds because they are associated with the main Taliban faction and Dera Ismail Khan has been the target of terrorist attacks in recent years.

"People refuse me shelter because I am Mehsud," said Muhammad Alam Mehsud, 47 years old, who arrived in the town last week with 12 members of his family. "People fear that police would harass them if they provide refuge to a Mehsud."

One of the reasons cited by the government for not establishing camps is the fear of bloodshed between tribes. "They come here with their tribal rivalries and it is difficult to put them together," said Qamaruzaman Kaira, the federal information minister.

Some 32,000 refugees have registered with officials since the start of the military offensive, said Arien Rumery, a spokeswoman for United Nations High Commission for Refugees in Islamabad. They join more than 80,000 people who had fled South Waziristan since May, bringing the total number of registered displaced persons to more than 112,000.

Aid workers said the official number of refugees could rise as more flee the fighting and register with the government.

"The number of refugees could go up to 250,000 in the next few weeks as the conflict could go much longer," said Barbara Billi Bierling, a spokeswoman for the U.N. Office for the Coordination of Humanitarian Affairs in Islamabad.