Some ways to spend $10 billion to alleviate the world's problems
THE JOURNAL REPORT

New climate-change tactic: restore battered reputation
THE BIG READ 16-17

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 21 EUROPE Monday, March 1, 2010

DOWJONES A News Corporation Company europe.WSJ.com

THE WALL STREET JOURNAL. £1.50
Bahrain BD 1.50 - Egypt $1.75 (C/V)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

Prudential nears AIG deal

American International Group Inc. and **Prudential** PLC were closing in late Sunday on a $35.5 billion sale of the government-controlled insurer's crown jewel, its Asian life-insurance business, people familiar with the matter said.

By Jeffrey McCracken, Dana Cimilluca and Serena Ng

AIG's board approved the deal Sunday. The sale would help the troubled U.S. insurer repay its massive debt to the U.S. government.

As early as Monday, Prudential and AIG are set to announce the purchase of **American International Assurance** Ltd., the people said. The consideration would be composed of $25 billion in cash and $10.5 billion in equity, including possibly preferred shares, options and warrants. The U.S. government is in favor of the deal, the people said.

Prudential, a midsize U.K. life-insurance and asset-management company with substantial operations in Asia, appears to have won over AIG with the size of its offer, which likely trumps what a planned initial public offering of AIA would have fetched. AIG was hoping to raise $15 billion in the IPO.

Still, the takeover would be a large bite for Prudential, at more than its existing market value, which currently stands at $23 billion. It would likely need to tap its own

Please turn to page 4

Huge earthquake in Chile kills at least 708

Reuters

Residents inspect debris on the Chilean coast close to the epicenter of a magnitude-8.8 earthquake that generated waves flooding many towns. See article on page 10

Berkshire rebounds but hits bumps

By Scott Patterson

Hundreds of thousands of fresh **Berkshire Hathaway** Inc. shareholders got an update Saturday on how their investment performed in 2009, and the news was mixed.

While Berkshire's underlying returns rebounded strongly, helped by its vast stock holdings, pockets of weakness in several economically sensitive operating units including jet rental crimped results.

In its annual shareholder letter, the conglomerate, which sells everything from ice cream to machine tools to house paint, reported that its book value gained nearly 20% to $84,487 per share in 2009 from the prior year, based on a metric the company uses to track performance. In dollar terms, book value shot up $21.8 billion last year, a record.

Berkshire posted net income of $8.1 billion in 2009, up from $5 billion a year earlier but down sharply from the $13.2 billion it earned in 2007. Revenue was $112 billion in 2009, from $108 billion in 2008.

Please turn to page 21

Bailout plan takes shape

A plan led by Germany and France to bail out Greece with aid of as much as €30 billion ($41 billion) has begun to take shape, but Athens and Berlin remained at odds over the timing and terms of a rescue.

Greek officials said they expected to seal a deal by Friday, when Greek Prime Minister George Papandreou meets in Berlin with German Chancellor Angela Merkel, but a senior German official insisted a bailout wasn't imminent.

By Carrick Mollenkamp, Costas Paris and Marcus Walker

The rescue under consideration, according to Greek officials and other people familiar with the matter, would involve the sale of debt to French and German entities, likely state-owned banks, as well as to bond investors. The sale, expected to be in the range of €20 billion to €30 billion, would roughly be split between those banks and large debt investors, these people said.

"There is definitely no such plan," said Ulrich Wilhelm, spokesman for German Chancellor Angela Merkel.

The conflicting accounts reflect Germany's reluctance to give up any leverage it has over Greece before Athens has shown concrete progress in reining in its deficit, expected to reach nearly 13% of gross domestic product this year. Germany, the economic engine of the 16-nation euro zone, would have to shoulder the lion's share of any bailout.

Polls show that a solid majority of Germans oppose extending aid to Greece. Greece, which needs to refinance more than €50 billion in debt in the coming months amid growing doubts over its solvency, is eager to lock in a rescue plan as quickly as possible.

French Finance Minister Christine Lagarde confirmed that deliberations over rescue options were taking place and could involve "either private partners, or public partners—or both."

"I have no doubts that Greece will succeed in refinancing itself through ways that we are exploring at the moment," French Finance Minister Christine Lagarde said on French radio Europe 1 on Sunday morning.

Please turn to page 4

PAGE TWO

The EU faces another crucial crisis: its determination to be ineffectual

[Agenda]

BY IRWIN STELZER

Greece, Tony Blair, Barack Obama: That says about all that needs to be said about the failure of the Lisbon Treaty to catapult the European Union onto the world stage.

Greece's travails are too well known to require rehearsing here. What is less well understood is the effect of how the European Union's bureaucracy has reacted and continues to react.

The man responsible for seeing to it that members followed what he termed "sound policies for economic stability" was Joaquín Almunia, commissioner for monetary affairs. On his watch, Greece developed the financing techniques that have brought it to the brink of ruin. His punishment for nonfeasance? Promotion to competition commissioner, where his skills at detecting problems will be applied to the hunt for cartels, a prospect that cannot have potential violators quaking in their Guccis.

Worse still, the EU reaction to Greece's problems, neither the promise of solidarity and a bail-out, nor a firm get-your-house-in-order or start printing drachmas, shows that the highly politicized EU economic-policy machinery "is not up to the scale of the task," as Greek Deputy Prime Minister Theodoros Pangalos puts it, this from a man who in the middle of a crisis of this scale attacks Germany for insisting on Greek austerity, suggesting Greece's problems are at least in part due to Nazi looting: "They took away the Greek money, and they never gave it back. This is an issue that has to be faced."

That shilly-shallying should come as no surprise after the performance of the EU states-persons in *l'affaire Tony Blair*. That the former British prime minister would be interested in the presidency of the EU is a testimonial to the attraction of motorcades over real accomplishments in the Middle East and a variety of charities. Never mind—that was for Mr. Blair to decide. The EU political leaders had to decide whether they could tolerate being overshadowed by this world-class politician, a man who surely would get his calls to the White House returned. They decided *"non"* and *"nein."*

Agence France-Presse/Getty Images

Spain's deputy prime minister, Maria Teresa Fernandez de la Vega; European Commission President José Manuel Barroso; Spanish Prime Minister José Luis Rodriguez Zapatero, and EU foreign-policy chief Catherine Ashton

> **It is of no concern to Mr. Obama if Europeans can meet the requirements imposed on U.S.banks**

Instead, they chose Belgium's former prime minister, Herman van Rompuy, to be president of the European Council and José Manuel Barroso to be president of the European Commission. Not exactly names designed to inspire awe among international movers and shakers. Nor are those of Catherine Ashton, the EU foreign representative, and José Luis Rodriguez Zapatero, the rotating president of the EU. Backstage horse trading isn't designed to produce powerful leaders.

There is worse. Any chance the good Baroness Ashton might have had to establish herself as the person to whom the U.S. and other nations should look for decisions was destroyed last week when Mr. Barroso appointed long-time personal aide, João Vale de Almeida, to be EU representative to the U.S. It seems Mr. Barroso felt Baroness Ashton hadn't gotten her operation sufficiently under way, so it was incumbent on him to put a crony in this plushest of EU jobs before she had an opportunity to fill it.

Which brings us to U.S. President Barack Obama. He might be outnumbered three-to-one by the EU presidents, but he is generally regarded as a more consequential world figure than any, or even all of them. This is the president the EU aimed to impress with its Lisbon Treaty and new appointments.

And impress him they did.

First, they made it clear that with one or two exceptions EU members have no interest in doing what allies are expected to do—provide support during a war. Welfare spending, yes; military spending, no. Troops to build schools perhaps, troops to come out and fight at night, definitely not.

Then the Brussels bunch couldn't decide which of its presidents would play host to Mr. Obama at the EU-U.S. summit in the spring; or what to put on the agenda. So Mr. Obama quite sensibly decided not to waste his time and will stay home mending his political fences.

Even more important for the EU, he has decided that the multilateralism he preached on the campaign trail has its limits. The American president is now proposing to restructure the U.S. financial-services sector in a way that the French and Germans believe to be unsound, and more important to them, against their interests. It is of no concern to Mr. Obama whether European banks can meet the new capital requirements imposed on American banks, or whether they will be able to compete with the American banks that will no longer be too big or too interconnected to fail. French President Nicolas Sarkozy's bleats were met with the equivalent of *chacun à son gout*, not surprising after his attempt to have the dollar replaced as the world's reserve currency.

I am reminded of a dinner party at the British embassy in Washington some 10 years ago, at which a top EU official asked a colleague of mine what role Europe would play in the 21st century. "No offense, but Europe is irrelevant to the 21st century," was the reply. The eurocracy seems determined to prove my colleague right.

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

What's News

■ **At least 51 people died** as a storm with hurricane-strength winds ripped across Western Europe. Many of the at least 45 victims in France drowned, and the country's prime minister called it a national catastrophe. 3

■ **Stocks and commodities** are on parallel tracks again, in a sign that some investors are worried about a train wreck in the markets. 19

■ **HSBC's chief executive** will be awarded a bonus of as much as $6.1 million for 2009, but he is likely to give all or part of it to charity. 19

■ **GM is considering** putting more of its own money into Opel's restructuring, in a bid to win $3.7 billion in European state aid. 21

■ **U.K. Conservative leader** Cameron sought to regain momentum in a suddenly tight campaign with a promise for political change and a call for Britain to attack its massive budget deficit. 5

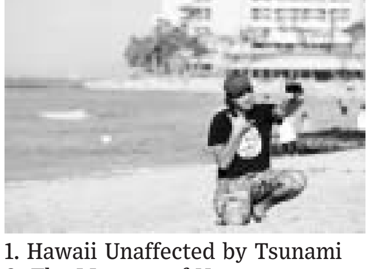
Inside

Pogoplug is a simple way to back up files from afar. 27

Olympics engineering: Winning is tied to who has better gear. 28

ONLINE TODAY

Most read in Europe



1. Hawaii Unaffected by Tsunami
2. The Mystery of Norway
3. Chile Quake Is One of the Biggest in a Century
4. Massive 8.8-Magnitude Quake Hits Chile
5. Hedge Funds Try 'Career Trade' Against Euro

Most emailed in Europe

1. The Mystery of Norway
2. Hedge Funds Try 'Career Trade' Against Euro
3. Hearts Actually Can Break
4. Why Psychiatry Needs Therapy
5. Details Emerge for Greece Plan

Digits

blogs.wsj.com/digits

"But as a seemingly random slice of the unseen Internet, the errant messages are totally fascinating."

Zach Seward on a Facebook glitch that sent unintended messages to his inbox

Continuing coverage

Follow developments as Chile deals with the aftermath of its massive quake at **wsj.com/world**

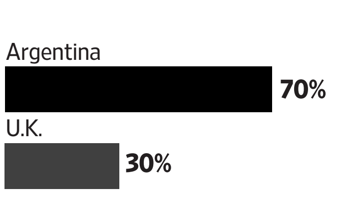
Question of the day

Vote and discuss: Should Internet companies be held legally liable for content posted on video sites by third parties?

Vote online at **wsj.com/dailyquestion**

Previous results

Q: Who should have oil drilling rights for the Falkland Islands?



THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street, London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 207 309 7799. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 207 842 9600; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Baslnevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Violent storm kills 51 people in Europe

Xynthia hits France, four other countries

Associated Press

PARIS—A violent late-winter storm with fierce rain and hurricane-strength winds ripped across Western Europe on Sunday, battering France and four other countries, leaving at least 51 people dead.

The storm, Xynthia, was the worst in France since 1999, when 90 people died. Prime Minister François Fillon held an emergency cabinet meeting and afterward called the storm a "national catastrophe."

Many of the at least 45 victims in France drowned, while others died when they were hit by parts of buildings or trees and branches that were ripped off by the wind. At least a dozen people were missing Sunday and 59 others were injured.

Three people died in Spain, one was killed in Germany and a child was crushed to death in Portugal. The storm also hit Belgium, with one death reported there. Although Britain wasn't hit, London's Thames Barrier—the capital's flood defense—was closed Sunday morning as a precaution.

Nearly 900,000 people in France were without electricity. Rivers overflowed their banks in Brittany, while high tides and enormous waves swamped Atlantic Ocean communities in the early-morning hours. Sea walls broke in the town of L'Aguillon, where the ocean waters reached the roofs of some homes. Helicopters lifted people to safety throughout the day.

A retired couple who had parked their camping car on the waterfront in the town Moutier-en-Retz were killed when the vehicle was swallowed by rushing waters and they couldn't make it to firm ground.

The threat of avalanches was high in the Pyrenees Mountains and the southern Alps due to wind and wet snow. Roofs were ripped off, chimneys collapsed and the wind shattered the windows at a brewery in eastern France.

In Paris, winds knocked over motorcycles and spewed garbage around the streets of the capital. Flights were delayed and at least 100 were canceled at the two main Paris airports. A number of trains throughout France were delayed because of flooded tracks.

Winds reached about 130 mph (200 kph) on the summits of the Pyrenees and nearly 100 mph along the Atlantic Coast. The storm hit southwestern France hardest, flooding coastal islands and tossing boats around in ports.

French President Nicolas Sarkozy and Interior Minister Brice Hortefeux planned to visit the worst hit regions Monday. The finance minister announced an easing of taxes for those affected for 2010.

The storm was moving eastward, and parts of France along the border with Germany and Belgium were on alert for heavy rain and high winds.

Officials say scores of flights and trains have been canceled or delayed in southwestern Germany. One man was killed in the Black Forest area when winds brought a tree down onto his car in the Sunday afternoon storm.

In Belgium, one man was killed by a falling tree in his garden in Jodoigne, in the south of the country, broadcaster VRT reported.

In Spain, the interior minister said three people were killed by hurricane-strength winds and heavy rainfall that lashed the country's northern regions. Alfredo Perez Rubalcaba said the storm had been intense in certain regions and killed a woman in northwestern Ourense and two people whose car was hit by a falling tree in Arlanzon just north of Madrid.

Portugal's home-affairs minister, Rui Pereira, said a child had been killed Saturday by a falling tree in Paredes. The 10-year-old had been playing ball near a church while waiting to go to a prayer meeting when a branch crushed him.

European Pressphoto Agency

Cars smashed by a tree in Karlsruhe, Germany, after a storm hit with winds of more than 100 kilometers per hour.

EUROPE NEWS

IMF role in crisis restrained

As European officials insist on leading talks with Greece, fund offers 'technical assistance'

By Bob Davis
And Marcus Walker

WASHINGTON—The International Monetary Fund's role in the continuing drama over Greece is limited—thus far—to advising Athens how to reform its tax and budget systems so the government can persuade markets and other euro-zone nations that its deficit-reduction program is valid, informed people on both sides of the Atlantic say.

The IMF has said it is providing "technical assistance" but hasn't disclosed what that work amounts to, leading to speculation that the fund is quietly putting together a rescue package for Greece, or is providing the analysis behind the European Union's arm-twisting of Athens to slash its deficit.

The IMF isn't playing a covert role of that sort, those familiar with its work say. Rather, European officials are insisting that they run negotiations with Greece. And while the IMF would like to play a larger role, European politics are getting in the way.

Agency France-Presse/Getty Images

Dominique Strauss-Kahn, the IMF's managing director, says "the Europeans want to try to deal with the problem themselves," but "if we are asked to do more, we will do more." He has talked several times with Greece's prime minister,

On Friday, IMF Managing Director Dominique Strauss-Kahn said again that "the Europeans want to try to deal with the problem themselves...[but] if we are asked to do more, we will do more." During the crisis, Mr. Strauss-Kahn has talked several times with Greek Prime Minister George Papandreou, an old ally in European socialist politics.

The EU's decision to keep the IMF on a short leash reflects pressure from European Central Bank President Jean-Claude Trichet, French President Nicolas Sarkozy and Luxembourg's Prime Minister Jean-Claude Juncker, who also chairs euro-zone finance ministers' meetings, say European officials.

Their argument is that turning to the IMF would undermine the credibility of the euro and the 16-nation euro zone. The IMF board includes the U.S. and China, and most euro-zone leaders don't want outside powers to have a say in matters that affect Europe's common currency.

Mr. Juncker considers the euro zone a "single monetary zone that should be able to cope with problems itself," a person close to him says. The ECB declined to comment.

German Chancellor Angela Merkel is more open to a deeper IMF role, says a person familiar with her thinking. At the same time, she would insist on tough terms for any European aid for Greece, the person says. Ms. Merkel believes the IMF has more know-how and experience at setting up aid packages than the European Commission, the executive arm of the EU. But she has acquiesced to other European leaders after finding herself in a minority, the person says. German officials say her own finance ministry is against a bigger IMF role.

Further complicating the IMF-EU relationship is the French presidential election in 2012. Mr. Strauss-Kahn has said he is considering a run, and he is now polling higher than Mr. Sarkozy. A big role for the IMF in helping resolve the Greek crisis could help Mr. Strauss-Kahn. The IMF is being especially circumspect in lobbying for a larger role for fear of being accused of political meddling, say IMF insiders.

Thus far, the commission and the IMF have divided responsibilities. The EU is driving negotiations over Greece's short-term deficit target and analyzing Greece's plans. The commission has beefed up its analytic capabilities. Former IMF economist Istvan Szekely is now chief economist of the commission department that handles fiscal issues.

The Greek finance ministry, though, is turning to the IMF for longer-term help, so it can meet budget targets in 2011 and 2012. The IMF is advising Athens on how to design better tax-collection systems to reduce rampant tax evasion. This year, the Athens government assessed a €700 million ($953 million) surcharge on large businesses to make up for a revenue shortfall, the latest stopgap measure to deal with such budget shortfalls.

The IMF is also helping Greece revamp its tax structure. Jeff Anderson, a European specialist at the Institute of International Finance, a banking trade group, says Greece likely will have to raise its value-added tax, which currently has a top rate of 19% and is riddled with exceptions, to about 25%, a common rate in Western Europe. Hungary, which has been trying to shrink its budget deficit as part of an IMF program, raised its VAT rate to 25% from 20% in July 2009.

Additionally, the IMF is advising Greece how to redesign its spending controls. The government regularly underestimates expenditures for health care and the military. Fixing the problem requires beefed-up budget controls and computer systems to track payments and try to reduce graft. Greece's inability to manage its finances has been sharply criticized by the EU's statistical authority, Eurostat.

Questions surrounding Greece's fiscal affairs have undermined faith in the country's ability to deliver on its promises. That has ratcheted up pressure on the government from other EU members negotiating with Greece and from markets wary about whether Greece can pay its debts without a big aid package.

Ted Truman, a former international Treasury official in the Obama administration, says the EU should use the IMF more fully—if only to give the electorate in Greece and elsewhere a political target other than Brussels, Paris and Berlin. The Europeans are treating Greece like a "stepchild who has misbehaved and are making an example of him for other children," he said. "The pan-European message that conveys is politically disastrous," because it could turn popular sentiment in the EU's economically weaker countries against tighter integration.

Bailout plan for Greece is starting to take form

Continued from first page

An official close to the French government added that France would only endorse a rescue that was also supported by Germany.

In a German television interview on Sunday, Ms. Merkel suggested Greece needed to go further than it has in cutting spending.

"At the moment, the best way to help is to make it clear that Greece should do its homework," Ms. Merkel said. Greece "must now do what is important for the country, but also for all of us."

Athens is expected to provide further details of its austerity program this week and will likely announce an additional €4 billion of spending cuts and tax increases this week following a visit by European Union Monetary Affairs Commissioner Olli Rehn on Monday, said people familiar with the matter. German and French officials say there will be no rescue until Greece meets the fiscal demands they have made.

Though officials in France and Germany may want time to deliberate and have given Athens until March 16 to show progress on its austerity program, there is an increasing sense that the financial markets want to see a resolution much sooner.

Debt markets, in particular, have been volatile in recent weeks amid the uncertainty over Greece's course and whether its crisis could spread to other vulnerable countries on the euro-zone periphery, such as Spain and Portugal.

The use of state-owned financial institutions might enable the German and French governments to get around regulations that could prohibit governments from owning the debt of other nations, a person familiar with the situation said. In Germany, KfW might be one institution used to buy the Greek debt.

Though the Greek investment would be considerable, German officials believe KfW would make money on the deal if the broader rescue succeeds as planned.

A debt sale potentially could dovetail with efforts by Greece and the European Union to agree on the structure of a Greek effort to cut budget deficits. The two sides, as of Friday, were at odds over whether a plan to cut spending and boost taxes would reduce Greece's budget deficit to a target of at or below 9% of gross domestic product this year.

A senior Greek official said Friday that the country is working on an additional level of levies to meet the EU target. But it may not be enough to persuade German officials to back the plan. The strong political obstacles in Germany to provide aid for Greece, including outright opposition from many lawmakers in the ruling coalition, mean aid would be a last resort, government officials say.

A German official said Berlin won't send German taxpayer money south "just as a reward for some new announcements," referring to Greece's expected additional budget cuts.

— Alessandra Galloni and Alkman Granitsas contributed to this article.

U.K.'s Prudential is close to deal for AIG Asia life unit

Continued from first page

shareholders in a rights issue to pay for the deal.

AIG, which is nearly 80% owned by U.S. taxpayers after a government rescue at the height of the financial crisis, is under pressure to start paying off chunks of its debt to the U.S. as many other bailed-out companies have already done. The U.S. government has committed as much as $182 billion to support AIG but has recouped only a fraction of the more than $130 billion it has doled out.

About $16 billion from the cash component of the deal will go to pay off preferred shares in AIA that are held by the Federal Reserve Bank of New York. The remaining $9 billion will go to parent AIG, which plans to use it to pay down outstanding amounts under its credit facility from the New York Fed, this person said.

As of Feb 24, AIG owed the regional Fed bank $25.3 billion under the credit facility. The facility was reduced from more than $50 billion last year when the New York Fed converted $25 billion of debt into preferred equity in AIA and another AIG overseas unit, American Life Insurance Co., known as Alico.

AIG is separately trying to reach a deal to sell Alico, whose operations are mainly in Japan and Europe, to MetLife Inc. for $15 billion. The deal has been delayed by an unresolved tax issue and is dependent on a favorable ruling from the U.S. Internal Revenue Service.

The MetLife deal is to 10 days away, one of the people said. Both deals, combined, could bring in about $50 billion, which would help repay the New York Fed.

Last week, AIG decided to scrap a plan to use cash flows from life-insurance policies to repay $8.5 billion to the New York Fed, believing it could come up with the cash another way.

Prudential, along with other firms, lined up bids for AIA a year ago. Prudential bid less than half of what it is now offering for AIA, one of the people said. In recent weeks, it began to press the bid again, this person said.

In addition, recently the banks that were to underwrite the AIA IPO started expressing nervousness given the choppiness of global equity markets, which gave momentum to the Prudential bid.

A takeover of AIA, considered a crown jewel among AIG's assets, would catapult Prudential into the ranks of the world's largest insurers and make it an Asian powerhouse. Asia would account for three-quarters of the merged company's value of new business, a way of indicating an insurance company's future profits.

Prudential PLC isn't related to U.S insurer Prudential Financial Inc.

Prudential, which dates its roots to 1848, has major businesses in the U.K. and U.S., but Asia already accounts for just over half of Prudential's value of new business, thanks to life and asset-management operations in mainland China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

AIA's headquarters are in Hong Kong and it has a large Asian presence, with as many as 20,000 employees and 250,000 agents scattered across more than a dozen countries including China, Singapore, Thailand and Australia.

EUROPE NEWS

Cameron vows shift

U.K. Conservative leader calls for attack on deficit as poll narrows

BY LAURENCE NORMAN AND ALISTAIR MACDONALD

BRIGHTON, England—With his party's once-commanding lead disintegrating in opinion polls, U.K. opposition Conservative Party leader David Cameron on Sunday sought to regain momentum in a suddenly tight campaign, with a promise for political change and a call for Britain to attack its massive budget deficit.

With a general election coming by June 3, Mr. Cameron faces the erosion of a once double-digit lead in opinion polls over U.K. Prime Minister Gordon Brown's ruling Labour Party. The lead has slipped since the start of the year, and on Sunday, a new YouGov poll for the London Sunday Times placed the Conservatives just two points ahead of Labour. That is among the very slimmest of Tory leads since Mr. Brown enjoyed a brief honeymoon period after he took over from Tony Blair in June 2007.

The new poll suggests the election, long seen by many as a foregone conclusion, has become a horse race. It also increases the likelihood of no party winning a majority for the first time in three decades of U.K. elections, an outcome many investors fear most as they look for a majority government that can push through the sort of unpopular spending cuts that will pare a deficit expected to reach 12.6% of gross domestic product this year.

The latest evidence of a tightening race came as Mr. Cameron was scheduled to address his party's spring conference, and forced him to admit the battle will be tough.

"They don't hand general-election victories and governments [out] on a plate to people in this country, and quite right, too," he said.

But some Conservatives increasingly blame Mr. Cameron and a coterie of senior politicians and advisers for throwing away much of a lead that had many in Britain taking for granted the first Tory government in 13 years.

While welcomed in financial markets, the party's tough promise to attack the deficit worried some analysts in a country used for over a decade to high spending and played into Labour Party attacks that the Tories are set to indiscriminately cut into hallowed institutions, such as the National Health Service. Mr. Brown also has been able to argue that aggressive cuts will imperil a still-fragile economy.

Agence France-Presse/Getty Images

David Cameron, left, and his wife, Samantha, greet supporters after his speech.

Meanwhile, the U.K. economy has begun to emerge—albeit tentatively—from an 18-month recession, with Mr. Brown taking credit for the progress. Mr. Cameron's message on some aspects of taxation—and even his tough talk on the deficit—has at times been inconsistent.

U.S. NEWS

Utility taps power of Bush bigwigs

At least a half dozen former White House staffers are having a reunion in Texas in senior-management roles

By Peter Lattman
And Rebecca Smith

Another de facto Bush White House reunion is taking place at **Energy Future Holdings** Corp., a debt-heavy Texas utility once known as TXU Corp. that is controlled by a trio of the world's largest private-equity funds.

Joel Kaplan, former deputy chief of staff under President George W. Bush, joined the company in October as head of public policy and external affairs.

Based in Washington, Mr. Kaplan effectively serves as EFH's lobbyist in chief.

With Mr. Kaplan's addition, there are at least half a dozen former Bush bigwigs helping EFH. The list includes: Donald Evans, former Commerce secretary; James A. Baker III, who held positions in the Reagan and both Bush administrations; Ken Mehlman, campaign chairman for Mr. Bush's 2004 presidential campaign and former head of the Republican National Committee, and Dan Bartlett, former counselor to Mr. Bush.

Their presence underscores just how critical government relations are for utilities, whose fortunes are closely tied to rules set by state and federal regulators.

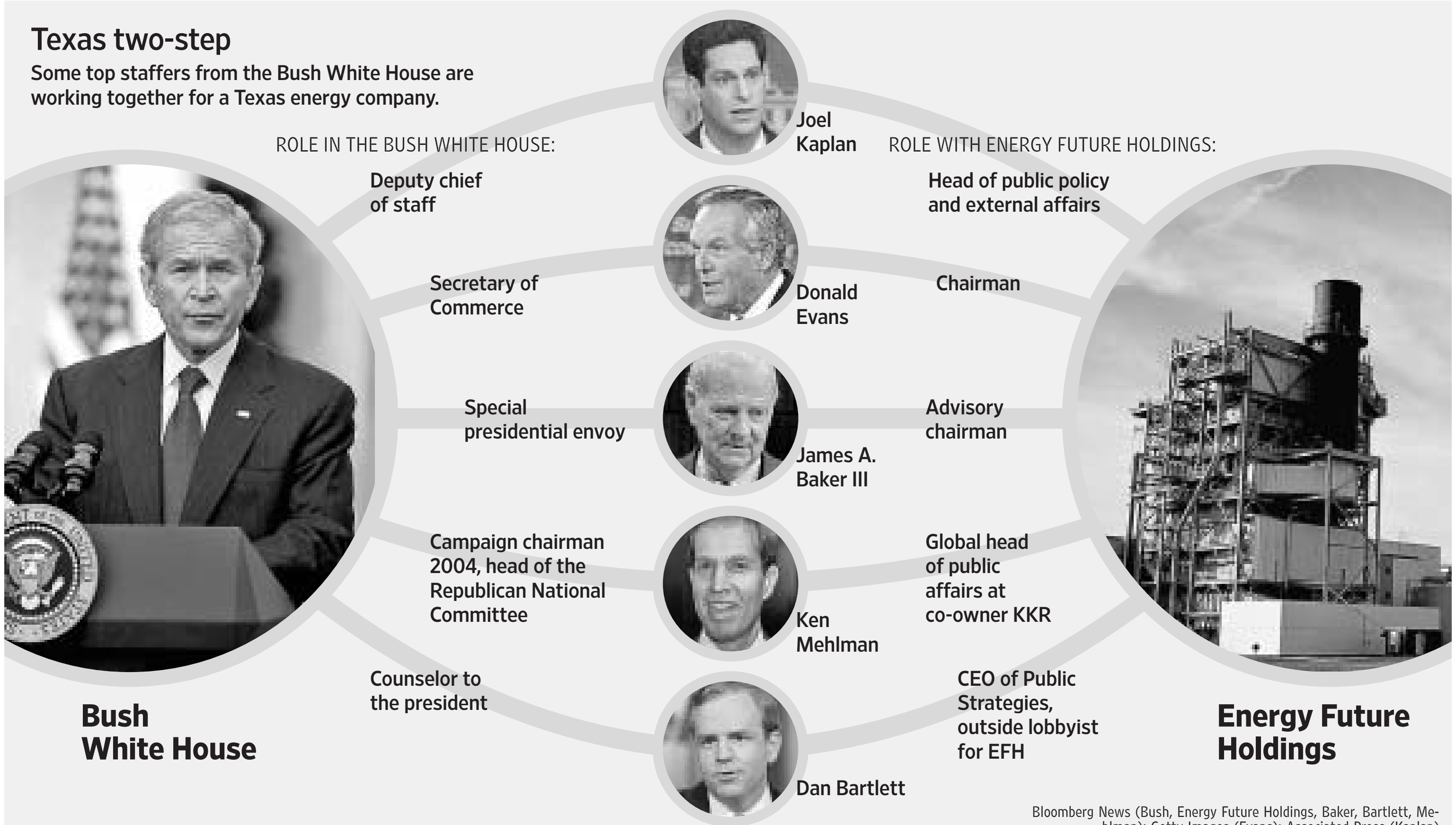
Utilities face restrictions on their waste stream—including carbon-dioxide emissions—that could greatly increase operating costs and put a squeeze on earnings. As a large coal burner, EFH is especially vulnerable.

When **Kohlberg Kravis Roberts** & Co., **TPG** and **Goldman Sachs Group** paid $32 billion for TXU in October 2007, in the largest leveraged buyout ever, they recruited Mr. Evans as the company's chairman. They also named Mr. Baker as advisory chairman on political and regulatory issues.

At the time, Messrs. Evans and Baker, both Houston natives, helped persuade a broad set of parties—from Texas lawmakers to regulatory agencies to labor unions—that Texans would help guide the company and that the deal made sense.

More than two years later, it isn't clear that it did.

In 2007, the private-equity owners borrowed $31.5 billion from banks to pay for the company. Since then, a drop in natural-gas prices and a slumping Texas economy has hurt EFH's financial results. The company has so far had little success restructuring its balance sheet, and though the bulk of its loans don't come due until 2014, several credit analysts have described EFH's capital structure as untenable.



Bloomberg News (Bush, Energy Future Holdings, Baker, Bartlett, Mehlman); Getty Images (Evans); Associated Press (Kaplan)

For now, the owners are sitting on about $5 billion in paper losses, having marked down their $8.3 billion equity investment by about 60%.

Those losses haven't hampered EFH's lobbying efforts in Washington. EFH spent about $4 million on federal lobbying in 2009, according to the Center for Responsive Politics, up 59% from the previous year and more than three times that of 2006. With a Democratic administration and Congress, the company has also increased its spending on Democratic lobbyists.

"We spent more in 2009 engaging on federal matters because there was far more activity in D.C. on issues that impacted us than in past years," said EFH spokeswoman Lisa Singleton. "We feel that it's important to be part of that debate."

The issues continue to pile up for EFH. The Dallas-based company is hoping to win federal government loan guarantees to build two nuclear reactors at a cost of $15 billion.

At the same time, the Obama administration is moving to clamp down on pollution from coal, used to fuel many of EFH's power plants. And there is the still larger issue of how to regulate carbon-dioxide emissions.

There is plenty of wrangling in Texas, too, where there is a continuing debate about EFH's size and influence in the state's deregulated power market.

Republicans hold a majority in the Texas House and Senate. In addition, Texas officials have more control over their electricity market than do state officials in any other state. As a result, Republican credentials carry special value there.

The presence of Bush officials underscores how critical government relations are for utilities, whose fortunes are tied to rules set by state and federal regulators.

EFH's predecessor, TXU, got a black eye for a plan in 2006 to build 11 coal-fired power plants. If built, they would have vaulted the company to third-largest carbon-dioxide emitter in the U.S. from 10th place. It later aroused public antipathy for raising electricity prices, prompting calls for re-regulation by consumer advocates.

The entire utility sector has increased its lobbying spending over the past year, to $144.2 million from $111 million in 2006. And other utilities also have hired Bush administration officials for senior policy roles.

But the Bush administration connections at EFH are particularly deep.

To help close the deal in 2007, the new owners' worked with Public Strategies Inc., an Austin, Texas-based lobbying firm. Public Strategies advocated a strategy to staff EFH's board and top ranks with prominent political officials with strong Texas ties, according to people familiar with the situation.

"For companies like ours, it is critical to have executives with significant senior-level policy experience," Ms. Singleton said.

The company owners, private-equity firms KKR and TPG, also have recruited former Bush officials. Six months after buying EFH, KKR hired Mr. Mehlman.

TPG made a similar move with Adam Levine, an assistant press secretary in Mr. Bush's White House. Mr. Levine worked on the TXU deal on behalf of TPG and KKR as a lobbyist for Public Strategies.

The outside lobbyists paid by EFH also feature several prominent former Bush officials.

Helping oversee the EFH relationship at Public Strategies in Texas is Mr. Bartlett, the chief executive officer of the firm, which is owned by advertising giant **WPP**. Mr. Bartlett, serving in the White House as a counselor to Mr. Bush, was considered one of his most trusted advisers before joining Public Strategies.

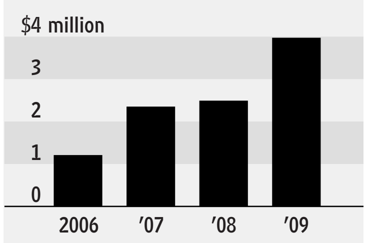
A spokeswoman for Public Strategies declined to comment.

Among Democrats on its Washington lobbying team, EFH last year paid $420,000 to law firm **Arnold & Porter**. Jim Turner, former Democratic congressman from Texas who also spent about a decade as a state legislator, leads the law firm's lobbying practice and handles the EFH relationship, according to people familiar with the situation.

An Arnold & Porter spokeswoman declined to comment.

Growing influence

Energy Future Holdings Corp.'s federal lobbying expenditures:



Source: Center for Responsive Politics

Soros criticizes Obama's bailouts

By Luca Di Leo

WASHINGTON—Billionaire investor George Soros, who helped U.S. President Barack Obama raise money for his presidential campaign in 2008, said Sunday he wasn't happy with Mr. Obama's handling of the financial crisis.

Mr. Soros said the government should have taken over U.S. banks instead of bailing them out, a move he suggested would have been more popular with Americans.

"The solution that he found to the financial crisis, which was to effectively bail out the banks and allow them to earn their way out of the hole, was, in my opinion, not the right solution," Mr. Soros said in an interview with CNN. "He should have compulsorily replaced the capital that was lost."

After taking office at the start of 2009, Mr. Obama stuck to plans implemented by George W. Bush to rescue banks by buying toxic assets from them and injecting capital into struggling lenders. As the financial sector recovered, the Obama administration put banks through stress tests to determine how much new capital they would need to withstand a severe recession, but steered clear of nationalizing them.

Mr. Soros said China took a better approach to dealing with the financial crisis by forcing its banks to increase their minimum capital requirements. He suggested that Beijing has in recent years been more successful in its handling of economic policy than the U.S.

Mr. Soros said the U.S. and China needed to work closely to manage the global economy, calling recent signs of bilateral tension worrying. The two countries disagreed over how to tackle global warming during a meeting in Copenhagen recently, and have faced off over trade and currency issues.

U.S. NEWS

Venue key in Enron case

Former President Jeffrey Skilling is appealing 2006 conviction

By John R. Emshwiller And Jess Bravin

Jeffrey Skilling will ask the U.S. Supreme Court Monday to throw out the 2006 convictions for conspiracy and fraud that landed the former president of Enron Corp. a 24-year prison term, in a case with possible implications for high-profile criminal defendants ranging from corporate chieftains to alleged terrorists.

Key among Mr. Skilling's claims: Enron's December 2001 collapse into bankruptcy was so traumatic for residents of Houston, Enron's hometown, that he couldn't get a fair trial there. Mr. Skilling argues that he should have received a change of venue, like Timothy McVeigh, whose trial in the bombing of the Alfred P. Murrah Federal Building was moved to Denver from Oklahoma City.

The Supreme Court hasn't taken a sustained look at venue issues since the 1960s, when it reversed several murder convictions after finding pervasive media coverage, often stoked by police or prosecutors in small towns, inflamed potential jurors against the defendant.

The Internet and cable and satellite television have vastly expanded the reach of media outlets, giving courts new factors to consider in evaluating potential juror bias. The court's decision could affect venue choices in a host of high-profile trials, including that of the alleged conspirators in the Sept. 11, 2001, terrorist attacks.

In the 1990s, Mr. Skilling was credited with building Enron into an energy giant. However, prosecutors later contended he and other top Enron executives took illegal steps to hide growing financial problems at the company.

Attorneys for high-profile defendants frequently argue that a trial needs to be moved.

But courts have generally preferred other methods to deal with potential prejudice, such as more careful questioning of prospective jurors, say legal experts. Venue-change requests are "very, very rarely granted," said Joseph DiBenedetto, a criminal defense attorney in New York City.

In their Supreme Court filings, Mr. Skilling's lawyers—led by Los Angeles attorney Daniel Petrocelli—cite instances where Mr. Skilling was the target of extremely negative media coverage and expressions of public anger in Houston, where Enron's demise cost thousands of people their jobs and left the city without its highest-profile corporate citizen

One Skilling filing said that questionnaires filled out by 283 prospective jurors found "80% expressed anger, negative views" concerning Mr. Skilling and his co-defendant, former Enron Chairman Kenneth Lay. Mr. Lay was also convicted at the 2006 trial but died a short time later of heart-related problems.

The federal trial judge, Sim Lake, ruled that an unbiased jury could be found among the Houston area's several million residents.

A federal appellate court in New Orleans ruled that Judge Lake should have found a "presumption of prejudice" given the "pervasive community bias" against former Enron executives. However, the appellate court upheld Mr. Skilling's conviction on the grounds that pretrial questioning had adequately screened jurors.

In its Supreme Court filing, the government argues that news coverage of the case "was largely factual and objective."

The material the defense considered inflammatory was mainly made up of entries on the Internet and other forums of "uncertain or low readership," the government argues. It adds that the Constitution guarantees an impartial jury and "not a trial in a venue whose populace has no exposure to the effects of the defendant's crime."

Arguments by Mr. Skilling's legal team have raised concerns among news organizations.

Several—including the publisher of The Wall Street Journal—filed a brief expressing concerns about any ruling that would automatically order a trial be moved in the face of presumed community prejudice. "Trial courts would inevitably face increased pressure to restrict access to information" to avoid moving the trial, the filing said.

Bloomberg News

Jeffrey Skilling (right) contends he couldn't get a fair trial in Houston.

U.S. NEWS

Japan looks hard at its debt problem

Increasing sales tax is most likely option, as bond-rating firms grow worried about nation's massive borrowing

By Yuka Hayashi

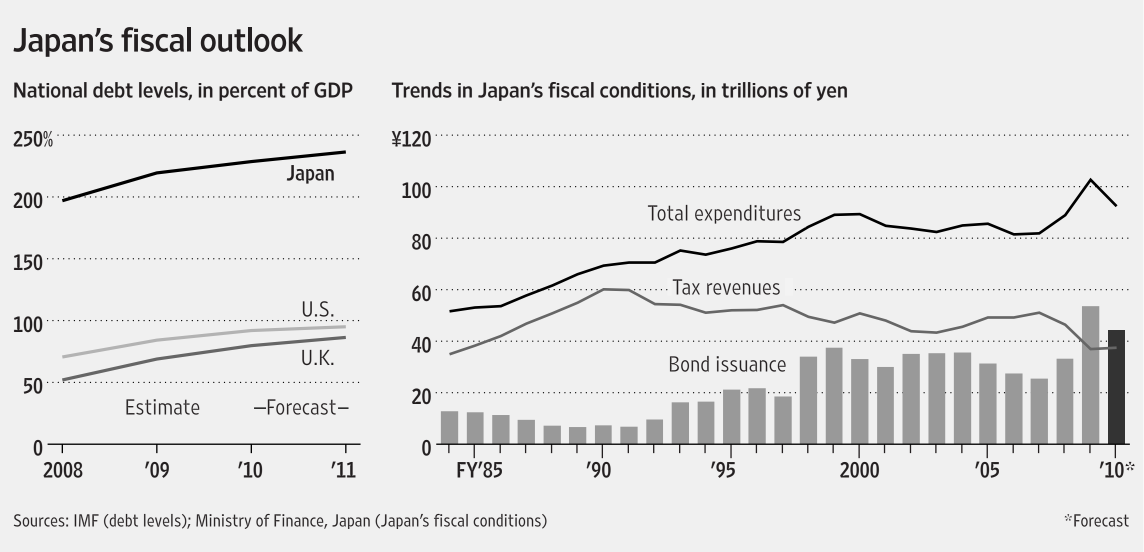
TOKYO—Will global markets start to treat Japan as the next Greece?

THE OUTLOOK

Bond traders up to now have been relatively sanguine about Tokyo's massive pile of government debt. But that attitude could be tested over the next three months, as Japan's new center-left government nears a self-imposed June deadline for crafting a plan to get its fiscal house in order. Out-of-control sovereign debt is what plunged Greece into crisis.

The main tool being considered to address Japan's debt problem is an increase in the sales tax, which at 5% is among the lowest in the industrialized world. In Europe, such taxes run closer to 20%. But members of Prime Minister Yukio Hatoyama's cabinet also worry that a tax increase could hammer consumer spending and push the country back into recession.

Japan has to do something. Government debt in the world's second-largest economy has swollen to more than twice the size of its gross domestic product, and some analysts question how long Japan can keep borrowing without causing a spike in borrowing costs, or, in a worst case scenario, a default.



Pundits predicting a looming Japanese debt crisis have already set off brief spasms of selling in Japan's government bonds. Standard & Poor's in January warned it might downgrade the country's sovereign-debt rating to levels below those of Chile. Moody's on Thursday also threatened to cut its view on Japan if the country fails to put together a convincing plan for debt reduction.

"We will be looking closely whether the targets are clearly identified," said Thomas Byrne, a Moody's analyst who focuses on Asian government debt.

Tokyo's promised a "medium-term fiscal framework," due out in June, should spell out its stance on spending and revenue for coming years.

Mindful that many are watching how the government tackles its debt problem, Mr. Hatoyama has backed away from costly promises made during his election campaign, such as eliminating highway tolls and high school tuition. The prime minister's aides are also putting more pressure on the Bank of Japan to be more aggressive in fighting deflation, the problem seen as the root cause of Japan's two-decade-long economic malaise.

It's against this background that Finance Minister Naoto Kan recently started talking about boosting Japan's sales tax. But it comes with strings attached: The government has repeated a campaign pledge not to implement such an increase until 2013.

The idea is unpopular with voters, especially Japan's large bloc of senior citizens. But advocates say a tax increase is probably the most effective way to cut the deficit and secure funds to cover the nation's ballooning pension and medical costs.

Experts generally agree an increase in the sales tax is inevitable, but differ on how it should be implemented. Some argue any increase should be phased in slowly and not started until it's clear it won't kill Japan's economic recovery.

Japan has gone down this road before. A 1997 sales-tax increase triggered a sharp drop in consumption and was blamed for pushing the economy back into a slump and sparking a decline in prices for goods and services in the economy.

Japan's financial health has deteriorated over the past two decades and, by some measures, Japan's fiscal health is among the worst among major economies.

The nation's gross government debts soared to 229% of its GDP this year, compared with 92% for the U.S. and 118% for Italy, according to the International Monetary Fund.

Still, some experts say worries about Japan's debts are overblown.

"The chance of Japan defaulting on its debt is very small and a spike in long-term interest rates is a risk for a few years down the road," said Tomoya Masanao, a fund manager watching Japan at bond fund Pimco.

Also working in Japan's favor is the fact that nearly 95% of its outstanding government debt is held by domestic investors, a group who has few other investment options.

—Tomoyuki Tachikawa contributed to this article.

Pakistan blocks Taliban extradition

By Zahid Hussain

ISLAMABAD—A Pakistani court has restrained the government from extraditing Afghan Taliban leaders recently detained by its intelligence services to any other country, raising the prospects of a new row between Kabul and Islamabad.

A panel of the Lahore High Court headed by Chief Justice Khawaja Sharif ordered the government not to extradite the Taliban leaders until the court gives its decision on a petition filed by a human-rights activist, Khalid Khawaja. He had filed a petition that said the Taliban leaders were arrested in Pakistan and should be tried under Pakistani laws. The court will resume its hearing on March 15.

The decision came Friday as Afghan President Hamid Karzai in an interview with a Pakistani newspaper said his government will send a formal request to Islamabad for the extradition of Afghan Taliban leaders recently rounded up in a Pakistani sweep.

Pakistani intelligence services have seized at least six senior Afghan Taliban leaders including members of the group's leadership council also known as the Quetta Shura for the name of the western Pakistani city where most of the senior Afghan insurgent leaders are believed to be residing.

Pakistani and U.S. intelligence agencies recently arrested Mullah Abdul Ghani Baradar, a deputy to Mullah Mohammed Omar, the supreme commander of the Afghanistan Taliban movement, in the southern port city of Karachi.

His detention followed the capture of some other insurgent commanders including Mullah Abdul Kabir, a former deputy prime minister in the Afghanistan's ousted Taliban regime.

A senior Pakistani official familiar with the latest crackdown said six Taliban leaders are in the custody of Inter Services Intelligence, the country's main spy and counterterrorism body. They include Tayyab Popalzai, who is believed to be a close associate of Mullah Omar, and was recently arrested by security agencies. It isn't clear when and where he was seized.

In the interview with the News, a Pakistani newspaper, Mr. Karzai said that his government was soon going to send a formal request to Islamabad for the handover of Mullah Baradar and other detained Afghan leaders to the Afghan government.

Pakistan's interior minister said earlier that the Pakistani government would consider a formal request from Kabul for the extradition of Mullah Baradar.

But a few hours later, a statement from the interior ministry said the detained Taliban leader could face charges for illegally entering Pakistan.

On Friday, Taliban gunmen and suicide bombers attacked a major hotel and two guesthouses in the Afghan capital, killing at least 17 people and showing the group remains a potent force despite a string of recent setbacks.

WORLD NEWS

Wen engages Web users

Chinese premier addresses economy, U.S. ties, but avoids politics

By J.R. Wu
And Jason Dean

BEIJING—Chinese Premier Wen Jiabao sought to allay jitters on a range of issues, pledging to maintain economic growth while managing inflation and expressing hope for improvement in China-U.S. relations in a rare, public Internet chat session that underscores the government's growing use of the Web.

Mr. Wen's exchange with Internet users Saturday came ahead of the annual full session of China's legislature, the National People's Congress, which starts Friday with the premier's annual report laying out the policy agenda for the coming year.

The chat session, which Mr. Wen first did last year on the eve of the NPC, is part of broader efforts by the ruling Communist Party to make the government seem more responsive and accessible to the public, which generally has almost no chance to interact with its leaders.

While China's government in recent years has tightened already strict controls over the Internet, officials have also sought to use the technology as a tool to monitor public opinion and to try to explain their policies to an increasingly vocal and demanding citizenry.

That is especially evident with the NPC, whose nearly 3,000 members have little power—they are largely expected to ratify laws and plans set by party leaders—but which the leadership wants to be seen as a conduit for public involvement in policy making.

In addition to the premier's Web chat, for example, the government has established online suggestion sites where citizens can propose or comment on policies.

Mr. Wen's chat session elicited more than 60,000 questions, according to the state-run Xinhua news agency, which arranged it.

Mr. Wen didn't address sensitive political issues in the two-hour discussion, but spoke on economic and social subjects ranging from employment and health care to product safety and the coming Shanghai Expo.

Asked about soaring housing prices that have raised fears of a property bubble and that many Chinese complain have made new homes unaffordable, Mr. Wen vowed to crack down on speculation and to boost the supply of low-cost apartments.

"I am determined that this administration will be able to deal with this problem during its current term," said the 67-year-old premier, who is scheduled to retire in 2013.

Concerns about asset-price inflation have been on the rise in China after a government-backed surge in bank lending last year to stimulate economic growth.

Policy makers in China have been tightening their oversight on bank lending and the People's Bank of China has already twice this year ordered banks to keep a larger portion of their deposits parked with the central bank in an effort to mop up liquidity.

Mr. Wen said 2010 will be a "complicated" year for the domestic economy, but that he is confident.

"Currently we are still carrying out a moderately loose monetary policy. That is to say 'moderately loose' is on the one hand ensuring stable and relatively fast economic development, and on the other hand being able to manage inflation expectations," Mr. Wen said, adding that managing inflation expectations is a "major task" this year.

The premier was also asked about trade ties with the U.S., where friction has been increasing in the past year over allegations of dumping and other unfair practices.

Mr. Wen didn't address the most sensitive aspect of that issue—U.S. complaints that China artificially suppresses the value of its currency to boost its exports—but said "we hope China-U.S. trade frictions can ease."

Mr. Wen reiterated that China doesn't seek a trade surplus and wants economic and trade ties with the U.S. to be balanced and sustainable, and again called on Washington to remove limits on its high-technology exports to China.

"We also don't hope for this year to become an unpeaceful year in the China-U.S. economic and trade relationship. This will require both sides to work together," Mr. Wen said.


Associated Press

Chinese Premier Wen Jiabao fields online questions in Beijing on Saturday.

WORLD NEWS

Reuters

Residents of Concepción force their way into a supermarket to buy food and essentials as police try to keep order following the earthquake. Elsewhere in Chile, looters had begun to raid stores.

Chile looks for survivors of quake

Death toll rises to 708; police in one city fire tear gas at looters; president puts army in charge of two regions

TALCA, Chile—Chilean rescuers searched collapsed buildings for survivors a day after one of history's most powerful earthquakes shook the South American nation, while the country's president said Sunday afternoon that at least 708 people had died.

By ***Anthony Esposito, Carolina Pica*** *and* ***Jeff Fick***

The figure is a significant jump from the 300 deaths reported by the government earlier Sunday. President Michelle Bachelet said there had been 541 deaths in the Maule region on the Chilean coast, which was closest to the epicenter of the 8.8-magnitude earthquake.

Also on Sunday, police in Concepción fired tear gas as looters grabbed everything from food to cigarettes and appliances from vacant stores. In the city of Chillán, at least 200 inmates broke out of a jail damaged in the quake, local papers said.

President Bachelet put the army in charge of two regions in southern Chile, sending in 10,000 troops.

The quake—the fifth-biggest ever measured—struck around 3:30 a.m. local time Saturday, toppling buildings, contorting roadways and cutting power and communications. At least 10 aftershocks hit, prompting some wary survivors to sleep outside the following night.

Stark scenes of damage underscored the quake's unusual power. Outside Chile's capital, Santiago, 320 kilometers northeast of the epicenter, automobiles were flung about a severed highway overpass.

The massive quake and the tsunamis that followed devastated coastal communities and resorts. Such was the fate of Pelluhue, and its roughly 1,000 residents.

"The earth started shaking so violently that we couldn't stand," said Maria Julia Aguilar, who was vacationing with her husband in Pelluhue. They struggled to their feet and fled by car into the hills above the town. She said the air was filled with the tidal waves' loud crushing of houses along the shoreline.

In one spot, tall Cypress trees carried on waves harpooned beachfront homes. Other houses were washed up onto the mountainside above the beachfront town. Plywood and housing materials littered the coast and floated offshore.

President Bachelet declared a "catastrophe" and said at least 80% of Chile's population of roughly 16 million had been affected. She called on citizens to use water, electricity and fuel conservatively, as rescue and rebuilding efforts got under way. Chile's main airport and some sea ports remained closed.

"It is still not possible to fully quantify the effects of this catastrophe," a visibly tired but calm Mrs. Bachelet said in a speech Saturday. "We are trying by every means possible to bring the country back to normal."

The quake presents a final challenge for Ms. Bachelet, who is in her last weeks in office, and who guided Chile through the global financial crisis. Conservative Sebastián Piñera is scheduled to take office March 11.

While the death toll may rise, human casualties so far appear surprisingly low considering the quake's enormous size. In part, that can be attributed to good fortune: The quake's deep epicenter muffled its impact on a sparsely populated nation. But preparation by quake-conscious Chilean governments also played a role.

Chile has enforced strict building codes since the late 1970s to limit earthquake damage.

By contrast, the much smaller quake that rocked Haiti in January has claimed at least 220,000 lives. That quake's epicenter was much shallower and struck near a capital city where many structures were haphazardly built.

Economists sought to gauge damage to the infrastructure of Chile, the world's biggest copper exporter. The temblor twisted roads and bridges, while shutting several copper mines and refineries, at least temporarily.

"Road damage was worse than what I expected," said Sergio Bitar, Chile's public-works minister, at a news conference.

Some operations appeared to be coming back on line. State-run copper concern Codelco said its El Teniente, the world's biggest underground copper mine, east of the city of Rancagua, was set to restart operations on Sunday. In Santiago, the main line of the metro is back up running.

Observers said Chile was up to the task of rebuilding. With its healthy economy and strong government institutions, the country can respond in ways that other countries, like Haiti, couldn't. Ms. Bachelet said Chile is examining offers of international aid. The focus is on immediate needs, which include field hospitals, mobile bridges, telecommunications equipment, electric-power generators, water-purification equipment and rescue crews to replace exhausted local crews.

"Chile would be more comparable to Japan or California than Haiti," said Patricio Navia, a Chilean political scientist at New York University.

The deepwater quake sent a surge of tsunami waves pealing across the Pacific, prompting evacuations from Hawaii to Japan. At least four people died and 11 more were missing after waves swamped a remote island village off Chile. But alerts were notched down around the globe as waves were smaller than forecast by the time they crossed the ocean.

Southern Chilean municipalities closest to the epicenter were hit hardest. As much as 80% of some towns in the coastal Maule region were destroyed by the shock or consequent waves, officials said.

"Unfortunately, we found whole families buried in the rubble," said Alejandro Boettiger, a firefighter from the southern city of Talca. An exhausted Mr. Boettiger spoke as he carried an elderly woman suffering from shock out of her badly damaged apartment building.

Saturday's quake was the worst in 50 years, and government officials cautioned it will be days before the full impact can assessed and life can begin returning to normal.

That may take time. Long lines formed Saturday at the few gas stations open around the country, and indications emerged that some in Chile were using the disaster to jack up the price of staples, such as bread. Some reports said a loaf was selling for ten times the usual price.

At the Four Points hotel in the Santiago's Providencia neighborhood, the quake began with a small vibration that quickly surged into a violent shake, knocking lamps off tables and artwork off the walls. Tourists fled the hotel via a stairwell, as water cascaded into the building through cracks in its shattered rooftop. Outside, tourists gathered in the dark as revelers poured out of nightclubs.

Outside the city, Rafael Galleguillos, on the verge of tears, said he had no idea how he survived a plunge off the side of an overpass that had collapsed on a highway that linked the country's international airport with the capital. Seven cars fell off the edge of the overpass, he said.

After the drivers helped one another escape from the wreckage, Mr. Galleguillos complained the overpass hadn't weathered the quake. "You pay tolls and taxes and you expect safety," he said.

In Santiago, very few buses were running through the streets. One taxi driver, who had driven through the eastern and southern neighborhoods of the capital, said many of the older houses, especially those made of adobe, were decimated.

"It was a really horrible sight," he said.

—George Seal in Santiago and Sergio Abarca in Talca contributed to this article.