TALE OF A CRISIS
WHAT WENT WRONG AT UBS

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E.U. gains ground, but debt burden still a threat

PARIS

Bloc's leaders are united by crisis but divided over how to extinguish it

BY STEVEN ERLANGER

More than two months ago, European leaders at a crisis summit meeting reached a decision that they claimed would resolve the spiraling threat to the euro.

It didn't. On Tuesday evening, Chancellor Angela Merkel of Germany met

NEWS ANALYSIS

with the Greek prime minister, George A. Papandreou, in a kind of morality play, to hear how his government intended to keep its promises to continue chopping away at government spending and services to meet stiff deficit requirements, despite increasing political opposition.

And on Thursday, with much anticipation and after much debate, the German Parliament is all but certain to accept the decision reached on July 21 to expand the powers of an enlarged bailout fund.

But even that vote will not put the new powers into place, because other countries must also ratify the decision. That process should be finished by mid-October, two and a half months after the emergency meeting.

Moreover, even if everything goes according to plan, the European Financial Stability Facility, at €440 billion, or $600 billion, is widely acknowledged to be too small to extinguish the crisis, since it is not large enough to protect Italy or Spain from the potential threat from the markets, which are worried about the risk of default.

It seems like another example of too little, too late on the part of the leaders of the 17-nation euro zone. But it also highlights sharply differing analyses of the core problem of the euro, making a solution that much harder to reach.

While there is talk in Washington and elsewhere of ''leveraging'' the E.F.S.F. to increase its effective size, many in the German government oppose such a move. Some see it as unconstitutional. Others, like Jens Weidmann, head of the Bundesbank and until recently a top government official, have poured scorn on the whole idea, saying that it will discourage politicians from making hard choices to cut deficits and undermine the credibility of the euro.

The German analysis, shared by the Dutch, Finns, and others in Europe's prosperous north, sees the main problem as the indiscipline and profligacy of nations in the south, like Greece, Portugal, Italy and Spain, which have run up large debts or fiscal deficits.

''It's a very Calvinist view,'' said Simon Tilford, chief economist for the Center for European Reform in London. ''We are free of sin and other countries would be fine if they behaved like us.' Those who break the rules must be punished, and consistent violators must be shown the door.''

The problem, Mr. Tilford notes, is that

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Merkel faces major test in embracing Greek aid

FRANKFURT

Chancellor tries to sway public opinion as Athens votes to impose new tax

BY JACK EWING

Faced with the prospect of humiliation by her own party, Angela Merkel, the German chancellor, on Tuesday showed some of the passion for saving the euro that her critics complain had been missing, beseeching German legislators and voters to support aid to Greece for their own good.

With the Greek prime minister, George A. Papandreou, in Berlin for talks, Mrs. Merkel sought to sway public opinion ahead of a vote Thursday in Parliament that some lawmakers have said is her most important legislative test since taking office nearly six years ago.

''Through the euro we are closely bound together and the weakness of one affects us all,'' Mrs. Merkel said during a joint news conference with Mr. Papandreou at the Chancellor's office, which came shortly after the Greek Parliament voted to back a hugely unpopular new property tax — one of a series of new austerity measures that will clear the way for Greece to receive financing it needs to stave off default.

''I know that a lot is being asked of the Greek people,'' Mrs. Merkel said, before a dinner with Mr. Papandreou. But she

JOHN MACDOUGALL/AFP

Chancellor Angela Merkel speaking to a business group in Berlin on Tuesday.

added that she was confident that Greece would fulfill conditions set by international lenders, and promised that Germany would be supportive.

But she tempered her remarks by insisting that Germany was ''not available'' for further steps like jointly issued bonds guaranteed by all euro zone members — an idea that Germany has staunchly resisted. And the German finance minister, Wolfgang Schäuble, ruled out an increase in the size of the euro zone bailout fund, though not necessarily an increase in its ability to borrow.

Critics have accused Mrs. Merkel of failing to show strong leadership and allowing the debt problems of one small Mediterranean country to grow into a global threat that even prompted a tentative offer of aid Tuesday from worried officials in Japan.

EURO, PAGE 19

E.U. VOTE LOOMS ON STRICTER EURO RULES
The European Union is trying again to adopt rules tough enough to provide a foundation for the euro. *PAGE 16*

ANGELOS TZORTZINIS/AGENCE FRANCE-PRESSE

the streets of Athens, opposition to more cutbacks was clear Tuesday, as thousands of public transport workers walked off the job in the latest in a series of 24-hour strikes.

Merkel faces test in embracing Greek aid

D, FROM PAGE 1

recent days, European officials faced intense pressure from con- ed counterparts in the United es and Asia to prevent further read of the debt crisis. The browbeat- g seems to have had some effect.

During appearances since Sunday, Mrs. Merkel has shown more willingness to risk her political prestige to win over skeptical Germans, whose money and support is crucial to any resolution of the sovereign debt crisis.

But she continued to put much of the onus on Greece. "The all-important thing is — and we will provide every assistance that is wanted from the German side — that Greece wins back confidence; that we get out of this terrible development that there is bad news every month," she said.

Mr. Papandreou, in recognition that his country's fate hangs to a large extent on decisions made in Berlin, tried to soothe some of the ill will that has built up between the two countries. Germans resent what they perceive as Greek unwillingness to live within their means, while in Greece the crisis has revived stereotypes of bossy, arrogant Germans.

"We must stop blaming each other for our different weaknesses and unite together with our different strengths," Mr. Papandreou said during a speech to the same business group that Mrs. Merkel addressed. "Even Germany depends on Europe, its biggest trading partner, for growth and jobs."

German lawmakers are certain to pass a bill that would bolster the main European bailout fund, known as the European Financial Stability Facility. But it would be a blow to Mrs. Merkel's waning prestige if dissent in her own coalition required her to seek support from the opposition Social Democrat and Green parties.

"Why a stability program?" Mrs. Merkel told a gathering of her Christian Democratic Union in Karlsruhe, Germany, on Monday. "Not because we want to take over Greece's debts, but because otherwise the euro would become unstable."

Lawmakers in Slovenia voted Tuesday to approve their share of the rescue fund's guarantees. Finland's Parliament is expected to reluctantly approve the fund measure in a vote Wednesday, despite formidable domestic opposition. All 17 members of the euro zone must ratify the expanded fund, a process that has delayed its implementation.

TOBIAS SCHWARZ/REUTERS

George A. Papandreou, the Greek prime minister, tried during a speech Tuesday to a business group in Berlin to temper some of the ill will that has been building up with Germany.

The fund will have the power to buy European government bonds and recapitalize struggling banks. But some analysts have said the fund needs to be two or three times bigger to remove any doubts about its impregnability.

Mr. Schäuble, the finance minister, said Tuesday that it was likely that the rescue mechanism would be further "enhanced," though he would not give details. He said that any further improvements to the fund would have to be done in an "efficient way" that did not overburden Germany and the six other countries with top credit ratings that are essential to giving the rescue fund a triple-A credit rating.

Lorenzo Bini Smaghi, a member of the executive board of the European Central Bank, also seemed to offer cautious support for increasing the fund's ability to borrow on open markets. The E.C.B.'s support would probably be essential to any such plan.

"Markets want more," Mr. Bini Smaghi said at a conference in New York. "We need to look at possible leverage."

Greek leaders, meanwhile, moved to assure their foreign creditors that they would keep promises to address the economic and political shortcomings that are the underlying reason the country cannot pay its debts without help.

The new property tax levy passed late Tuesday in Greece is expected to raise €2 billion, or $2.7 billion, this year alone, according to government calculations. Affecting some 5.5 million homeowners, it will cost the average family €800 to €1,500, according to the location and size of their property.

The vote was widely seen as a crash test for Mr. Papandreou's embattled Socialist Party, which must in coming weeks pass bills for equally controversial measures, like a plan to place 30,000 public workers on reserve status with reduced wages for the next 12 months ahead of a status review. Greek opposition parties say the plan is the prelude to layoffs.

The successful vote Tuesday was a sign that Mr. Papandreou managed to rally Socialist lawmakers despite enduring rifts within the party over the government's austerity drive.

But public opposition to the new tax was clear Tuesday as a small but vehement group of demonstrators clashed with police outside Parliament as lawmakers voted. In addition, thousands of public transport workers walked off the job in the latest in a series of 24-hour strikes protesting salary cuts and feared layoffs as state bodies are merged and abolished.

The Greek finance minister, Evangelos Venizelos, said that auditors from the European Union and the International Monetary Fund were due to return to Athens this week. This month, they left the country, in what was viewed as a display of dissatisfaction with Greece's progress on cutting the size of government and removing barriers to economic growth.

Mr. Venizelos confirmed that the I.M.F.'s managing director, Christine Lagarde, whom he met with in Washington last weekend, had requested written guarantees from the government on the timetable for the new measures and projected revenue. The measures include additional wage and pension cuts and the new property tax.

Speaking to the European Parliament in Strasbourg on Tuesday, Jean-Claude Juncker, president of the group of euro zone finance ministers, said the talks had broken off because of difficulties "in finding common ground between what the Greek government was expected to do and what it was able to do."

Since then, the situation had improved, Mr. Juncker added, though he said that time was too short to secure a decision on the release of the next portion of aid to Greece at the ministers' next meeting, on Monday.

Even if she prevails in Parliament this week, Mrs. Merkel still faces strong opposition to more Greek aid from populist politicians as well as many mainstream economists.

"Germany is undermining its creditworthiness by participating in the rescue effort," Hans-Werner Sinn, president of the Ifo Institute in Munich, said Tuesday in a statement.

But business groups, which say the euro has helped exports, have come out in favor of aid to Greece. On Tuesday they were joined by the German Confederation of Trade Unions, which took out large advertisements in several big newspapers appealing to lawmakers to vote yes on the rescue package.

"Our mothers and fathers built a peaceful Europe from the rubble of the second world war," the unions wrote. "It is our responsibility that we maintain a united Europe for our children and our grandchildren."

Reporting was contributed by Matthew Saltmarsh in London, Niki Kitsantonis in Athens, Judy Dempsey and Landon Thomas Jr. in Berlin, Stephen Castle in Brussels and Hiroko Tabuchi in Tokyo.

E.U. makes strides but no solution yet

GERMANY, FROM PAGE 1

such a view is not simply self-righteous — because it ignores the bad loans weak German banks, among others, made to the periphery and which Berlin is doing little to fix — but also arguably wrong, because it fails to take into account the unavoidable differences across the euro zone.

The northerners see themselves as blameless. They consider the euro and the euro zone a great success; they are proud that the European Central Bank has delivered price stability and that the euro has established itself as a global reserve currency. And if some member states are facing problems, this argument goes, it is because they lost competitiveness, borrowed too much at cheap rates and violated European rules intended to limit budget deficits and debt.

Consequently, to rebuild confidence, the sinners must repent, reform their economies and fix themselves; the road to redemption requires hard work, discipline, sacrifice and pain, even punishment for previous misbehavior.

It looks very different from elsewhere, however. There is no question that the countries on the periphery, like Greece, need to overhaul their finances and reduce their deficits. But if everyone is cutting at the same time, and in an uncoordinated way, the result will be fierce economic contraction for Europe as a whole.

And without growth, there is very little hope of getting out of the "debt trap," whereby more cuts in government spending lead to recession, lower tax receipts and more need to borrow.

"If there is austerity everywhere, where is the engine for growth?" asked Jean-Paul Fitoussi, professor of economics at the Institute of Political Studies in Paris.

"If there is no consumption, no reason to invest, difficulty in accessing the credit market, where is the growth?" he added. "The only engine that is functioning in this view is the engine of depression, and this will worsen the sovereign debt and deficit problem."

The Germans and other northerners, Mr. Fitoussi said, still believe that austerity and recession will lead to stability, confidence and growth.

"But there is no way what the Germans are saying can be true without divine intervention or a belief in miracles," Mr. Fitoussi said. "No austerity program can lead to growth in a period of discontinuity in the global economy and slowing economic activity everywhere."

Martin Kocher, a professor of economics at the University of Munich, said the debate stemmed from structural problems overlooked or ignored in the essentially political discussions that led to the European monetary union.

"The two main effects were a transferring of trust and credit to countries" like Greece and Italy that were not fiscally sound as others, Mr. Koche said, "but also a slow erosion in their competitiveness over time, which they didn't realize because it was covered up by the huge inflow of money."

And what was the source of that money? Banks in Germany, the Netherlands and France.

Restructuring Greek debt may help ease the burden but it will not solve the nation's competitiveness problem, Mr. Kocher said.

"We're not talking about two to three years here," he said. "We're talking about 10 to 15 years, and this is not an easy thing."

Moreover, no matter how well applied, rules and overhauls in the peripheral countries will not by themselves restore faith in the euro zone, Mr. Tilford argues. In a relatively closed currency zone, not everyone can be a creditor and an exporter.

Creditors require debtors, and exporters require importers. That mea countries like Germany need to increase economic activity and consumption, Mr. Tilford says, while the E.C.B., which actually raised interest rates in July out of misplaced fears of inflation, should cut them again and pump more money into the euro zone economy.

But such a policy runs against the German analysis of the problem. And any fundamental overhaul of the euro zone, like a real economic government with shared fiscal powers to match the shared monetary powers of the E.C.B., would require a sacrifice of sovereignty that seems to exceed the political appetites of leaders and voters.

"That such a moderate agreement is inciting and inflating so much ill feeling in Germany is very worrying."

Mrs. Merkel has had to expend considerable political capital to get even her own coalition and the German Parliament ready to endorse the decisions of July 21, and the majority in her own coalition is not yet solid.

But those decisions, economists say, will have to be quickly followed by others of a larger magnitude.

"That such a moderate agreement is inciting and inflating so much ill feeling in Germany is very worrying," Mr. Tilford said. "It casts doubt that in the next six to nine months Germany will move fast and far enough to keep the car on the road."

Nicholas Kulish and Stefan Pauly contributed reporting from Berlin.

Fresh attempt being readied to toughen the euro rule book

EUROPE, FROM PAGE 16

Luxembourg and Sweden — currently meet the bloc's targets, a reminder to the rest that, at some point, they might find themselves in the dock.

Some countries appear worried about this too. The Dutch prime minister, Mark Rutte, recently proposed a system under which a powerful economic figure would be able to intervene in a member country's finances in the way that the European commissioner responsible for antitrust could act independently in his domain.

That reflects fears among some of the small and midsize countries that Germany and France cannot be trusted to obey the rules if life gets tough for them again.

Some also continue to have trouble understanding the logic of fining a government in financial difficulty. Others say that the E.U. should be trying to construct broader tools to integrate economic policy, including developing a common Treasury and issuing bonds backed by the collective weight of all the countries in the euro zone.

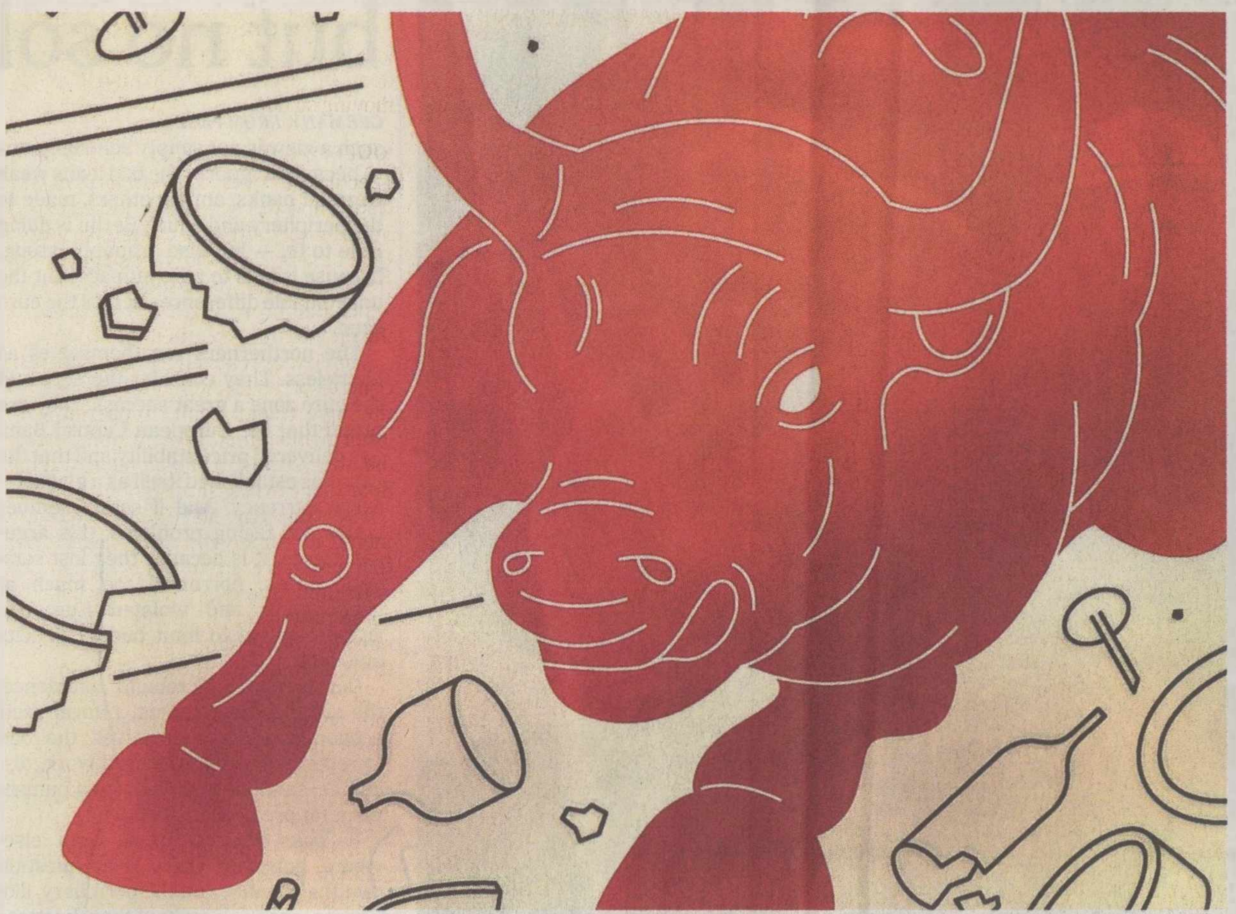
Simon Tilford, chief economist at the Center for European Reform in London, said that, while positive, the new rules would not necessarily have prevented a crisis caused largely by the flow of hu sums from the euro zone's core to periphery, aided by overleveraged banks.

"I think the discussion over rules is largely displacement activity," he said. "The euro is not in trouble primarily because the rules were broken. It is because it is institutionally incomplete, and because governments have an insufficient democratic mandate to introduce the changes needed."

Bank of America haunted by Merrill deal

Window on Wall Street

STEVEN M. DAVIDOFF



HARRY CAMPBELL

NEW YORK Bank of America's potential liability for bad mortgages — in the tens of billions of dollars — is well known. But Bank of America is haunted by other demons from the financial crisis, the most significant being a lawsuit arising from the bank's troubled Merrill Lynch acquisition.

This lawsuit, brought by Bank of America shareholders, claims that Bank of America and its executives, including its former chief executive, Kenneth D. Lewis, failed to disclose what would be a $15.3 billion loss at Merrill in the days before and after Bank of America's acquisition. The plaintiffs contend that this staggering loss was hidden to ensure that Bank of America shareholders did not vote against the transaction.

Bank of America disclosed the loss after Merrill was acquired. At the same time, Bank of America also disclosed a $20 billion bailout by the U.S. government. After these announcements, Bank of America's stock fell more than 50 percent over the next two weeks, a loss of about $50 billion in market value.

This episode also spawned a lawsuit from the U.S. Securities and Exchange Commission that Bank of America, Mr. Lewis and Joseph Price, the former chief financial officer, settled for $150 million.

Judge Jed S. Rakoff of U.S. District Court in New York approved the deal but complained that it did not sufficiently penalize the individuals involved. The entire amount was paid by Bank of America, with no liability for Mr. Lewis or Mr. Price. Judge Rakoff called the settlement "half-baked justice at best."

Judge Rakoff may see his wish for greater penalties granted. The New York State attorney general at the time, Andrew M. Cuomo, initiated a lawsuit on the matter.

More significant, a lawsuit seeking up to $50 billion was brought by some of the largest class-action law firms and is quietly advancing in the same U.S. court. The plaintiffs contend that Bank of America engaged in a deliberate effort to deceive the bank's shareholders.

According to the plaintiffs, who include the Ohio Public Employees Retirement System and a Dutch pension plan that is the second-largest in Europe, Bank of America's senior management, including Mr. Lewis and Mr. Price, began to learn of large losses at Merrill Lynch in early November 2008, weeks before the deal closed.

A suit claims the bank hid huge losses at Merrill until after a shareholder vote.

Mr. Price met with the bank's general counsel, Timothy J. Mayopoulos, to discuss whether to disclose the loss — at the time about $5 billion — to Bank of America shareholders. Mr. Mayopoulos testified to the New York State attorney general's office that while his initial reaction had been that disclosure was warranted, he had decided against it. Merrill had been losing $2.1 billion to $9.8 billion a quarter during the financial crisis, so that loss would be expected by Merrill and Bank of America shareholders.

Plaintiffs in the private action and the attorney general's complaint contend that after that meeting, Mr. Price and other senior executives at Bank of America sought to keep the loss quiet and that Mr. Price in particular misled Mr. Mayopoulos.

Mr. Mayopoulos has testified that on Dec. 3, 2008, Mr. Price told him that the estimated loss would be $7 billion. Mr. Mayopoulos concluded again that no disclosure was necessary. Plaintiffs contend Mr. Price misled Mr. Mayopoulos, as the forecasted loss at that time had grown to more than $10 billion.

The Bank of America vote occurred Dec. 5 without Bank of America shareholders' knowledge of the gigantic looming Merrill loss, which was now about $11 billion. Mr. Mayopoulos has testified that he was surprised at the higher number when he learned of it at a Dec. 9 board meeting. Mr. Mayopoulos sought to meet with Mr. Price about the new loss. The next day, Mr. Mayopoulos was fired and escorted out of the building. The Merrill acquisition was completed Jan. 1, 2009. Two weeks later, Bank of America disclosed for the first time that Merrill had suffered an after-tax net loss of $15.3 billion.

Bank of America has argued in its defense that the exact amount of the loss was uncertain during that time and that moreover, the disclosure was not necessary because Merrill's losses were within the range of previous losses and included an already announced $2.4 billion good-will write-off. The total loss was not material, the bank contends.

But if it is true that Mr. Price, with Mr. Lewis's assent, kept that information from Mr. Mayopoulos in order to avoid disclosure, that is a prima facie case of securities fraud.

Plaintiffs in this private case have the additional benefit that the claim is related to a shareholder vote. It is easier to prove securities fraud related to a shareholder vote than other types of securities fraud claims, like accounting fraud.

Shareholder vote claims do not require that the plaintiffs prove that the person committing securities fraud did so with awareness that the statement was wrong or otherwise recklessly made. You only need to show that the person should have acted with care.

This case is not only easier to establish, but the potential damages could be enormous. Damages in a claim like this are calculated by looking at the amount lost as a result of the securities fraud. A court will most likely calculate that amount by referencing the amount that Bank of America stock dropped after the loss was announced, which is as much as $50 billion. It is a plaintiffs' lawyer's dream.

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Ending crisis won't stave off recession

James Saft

INSIDE THE MARKETS

The question is not whether Europe will tip the world into recession but rather how much worse the euro crisis will make the recession that is already chugging down the tracks.

Markets have been transfixed by the European debt crisis and its potential to deal a huge shock to the global economy, trade and confidence. High-level meetings in Washington over the weekend were once again inconclusive. Some hope for a euro superbazooka bailout vehicle, though such a fund faces obstacles and its chances for lasting success are far from clear.

Investors are right to worry about the unraveling of Europe but wrong to conflate averting disaster there with a return to rude economic health.

The economic data globally tell a story of weakening demand and dwindling confidence, both in the main developed economies and in formerly fast-growing parts of the rest of the world. The extent to which this is driven by fears of a European meltdown is open to debate, but it is far from being the world's only problem.

In the United States, the well-respected Economic Cycle Research Institute's weekly index of leading economic indicators fell again last week, taking a four-week rolling average to minus 6.7 percent, the steepest such decline in almost a year. Housing is still a source of weakness, joblessness is likely in increase, and the Federal Reserve's latest effort to help the economy by driving longer-term interest rates lower fills few people with much confidence.

The Markit eurozone services purchasing managers' index, a broad-based indicator for the most volatile and important part of the region's economy, fell to 49.1 this month from 51.5 in August. (Anything under 50 indicates a contraction.)

Perhaps even more telling, the HSBC China P.M.I., this time measuring the manufacturing sector, fell to 49.4 from 49.9 in August. That tells you that the weaknesses in the United States and Europe are really being felt in emerging markets. While a global recession would merely mean that Chinese growth would fall below the 8 percent benchmark, you can bet that drop-off would have effects elsewhere.

We could easily be looking at a recession in both Europe and the United States, an outcome that would, in consequence, make dealing with the cur agenda more difficult. Corporate pro will be hit, and companies, already hoarding cash and slow to expand, will retreat further into their shells, delaying investment and perhaps shedding additional jobs. Tax revenues will also slide, worsening the debt problems and credit profiles of sovereign borrowers and again potentially setting off a self-reinforcing round of budget cuts, layoffs and yet more revenue shortfalls.

That could prompt further rating cuts and would definitely cause investors to sell the bonds of the more fiscally challenged countries. The United States' place as a haven may actually be reinforced, sparing the country from a bonc market rout, but deflation will again be part of the discussion. It is hard to argue for higher equity market valuation under these circumstances, which woul indicate either further falls or mo treme central ba intervention, whichever is politically easier. This is not to say what hap pens in Europe is n important. The nex month had better include a comprehe sive and credible plan to buy a couple years' grace.

Data point to weakening demand in developed as well as emerging markets.

"The outcome of the European deb crisis is probably pretty binary: eith Europe lets Italy go bust, or Italy an Europe prevent such a disaster," Ho Schmieding, an economist at Beren Bank, wrote in a note to clients. "O markets start to believe that Italy a Spain are safe, markets and the Eu pean economy could recover nicely. see an 85 percent probability that the euro zone will get it right in the end."

That 85 percent figure seems optimis tic to me, but even if disaster is averted, the fundamental reasons for a global slowdown remain: balance sheets are being repaired, debt is being repaid, and so consumer demand will be poor. That is really not going to change until enough of the debt has been forgiven, defaulted or inflated away.

Europe, like Lehman Brothers before it, is an impetus that pushes that snowball downhill, but even without Europe, the hill is just as steep and the snow is just as deep.

James Saft is a Reuters columnist.

INTERNATIONAL TRAVELER

NEW YORK

FLYING FOR U.S. HOLIDAYS THIS YEAR DEMANDS CREATIVITY AND FLEXIBILITY

Traveling during the big U.S. holidays at the end of the year is going to cost more. The average airfare for the weeks of Thanksgiving and Christmas is about $385, 4 percent higher than last year, the Web site Expedia said. There are fewer seats on tap and planes are fuller than ever.

Airlines have additional reasons to charge families more during the holiday season: There are fewer high-paying business travelers and airlines need to make up for that loss of revenue.

But fliers can save money by manipulating travel sites, planning itineraries that are less convenient and taking advantage of airfare refund policies. (AP)

HONG KONG

AVIATION AUTHORITIES EXAMINE CLOSE CALL BETWEEN LANDING JETS

The aviation authorities in Hong Kong said Tuesday that they were investigating an incident in which two planes carrying a total of more than 600 people had to take evasive action after heading into each other's paths as they were trying to land.

Cathay Pacific Airways said that in the Sept. 18 incident, one of its Boeing 777s and a Dragonair Airbus A330 were at the same altitude southwest of Hong Kong airport when they came too close and triggered cockpit alarms. Cathay said the pilots of both planes responded immediately, with the Dragonair jet climbing and the Cathay plane descending.

Cathay also said the planes were one nautical mile, or 1,850 meters, apart at the closest and there was "no risk of collision." (AP)

NEW YORK

UNITED PILOTS' UNION TRIES TO BLOCK CLEARANCE OF MERGER

Pilots at United Airlines have asked a U.S. judge to halt the company's integration with Continental Airlines, claiming that United was moving too fast in its bid to merge operations fully.

The United chapter of the Air Line Pilots Association, which sued Monday in U.S. District Court here, sought a stay of a Friday deadline to complete the next phase of training and begin new procedures. The union said the proposed timeline of training necessary for United Continental Holdings to earn single operating authority from the Federal Aviation Administration was inadequate.

F.A.A. clearance is the final step in the merger to create the world's biggest airline. United said the suit was without merit and was an attempt to influence negotiations on a joint contract between United's and Continental's pilots. (REUTERS)

LOS ANGELES

ACROSS MULTIPLE VENUES, PROGRAM HIGHLIGHTS ARTWORKS ABOUT L.A.

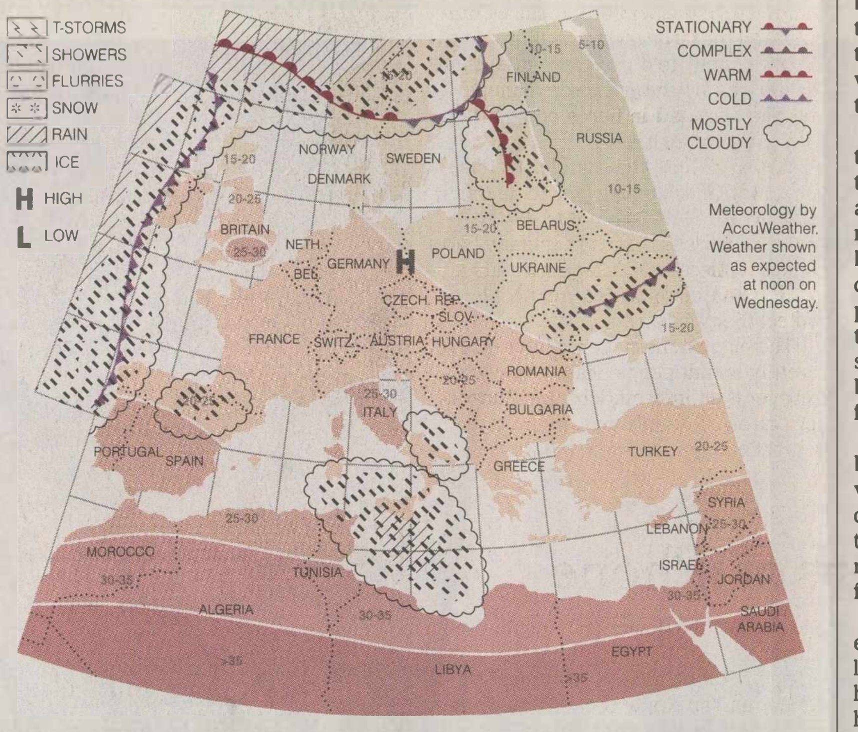
"Pacific Standard Time: Art in L.A.: 1945 to 1980" brings together 68 museums and more than 70 galleries to present seemingly every contemporary artist who ever made a notable statement about the city of Los Angeles. The event, which begins this week, has been 10 years in the making.

Several programs document the Chicano art movement, featuring among many others the paintings of Gilbert Luján, Carlos Almaraz, Frank Romero and Roberto de la Rocha, who as "Los Four" helped to popularize the colorful art form. (AP)

Traveler's forecast

High/low temperatures, in degrees Celsius and degrees Fahrenheit, and expected conditions.

C ... Clouds; F ... Fog; H ... Haze; I ... Ice; PC ... Partly cloudy; R ... Rain; Sh ... Showers; S ... Sun; Sn ... Snow; SS ... Snow showers; T ... Thunderstorms; W ... Windy



	Wednesday °C	Wednesday °F		Thursday °C	Thursday °F	
Abu Dhabi	41/32	106/90	S	41/30	106/86	S
Almaty	17/11	63/52	Sh	14/7	57/45	R
Athens	24/17	75/63	W	25/18	77/64	W
Bangkok	32/24	90/75	T	31/25	88/77	R
Barcelona	23/17	73/63	S	24/17	75/63	S
Beijing	22/11	72/52	PC	23/9	73/48	S
Belgrade	23/13	73/55	S	22/12	72/54	PC
Berlin	22/13	72/55	PC	24/15	75/59	S
Boston	21/14	70/57	C	22/16	72/61	Sh
Brussels	23/15	73/59	S	24/15	75/59	S
Buenos Aires	28/15	82/59	PC	26/16	79/61	Sh
Cairo	32/21	90/70	S	31/21	88/70	S
Chicago	19/11	66/52	C	19/11	66/52	C
Frankfurt	24/14	75/57	S	24/14	75/57	PC
Geneva	23/13	73/55	S	24/14	75/57	S
Hong Kong	31/27	88/81	T	29/27	84/81	R
Istanbul	24/19	75/66	S	24/15	75/59	S
Jakarta	33/23	91/73	H	33/23	91/73	PC
Johannesburg	27/11	81/52	S	24/11	75/52	PC
Karachi	31/24	88/75	PC	31/24	88/75	PC
Kiev	17/7	63/45	PC	12/8	54/46	R
Lagos	28/23	82/73	T	28/23	82/73	T
Lisbon	29/18	84/64	PC	29/19	84/66	PC
London	26/15	79/59	PC	25/14	77/57	S
Los Angeles	31/19	88/66	S	31/19	88/66	S
Madrid	28/12	82/54	S	27/11	81/52	PC
Manila	27/25	81/77	R	29/24	84/75	R
Mexico City	25/13	77/55	T	25/14	77/57	T
Miami	32/25	90/77	T	32/26	90/79	T
Moscow	13/9	55/48	C	12/3	54/37	Sh
Mumbai	31/24	88/75	PC	32/24	90/75	PC
Nairobi	28/15	82/59	T	29/14	84/57	T
New Delhi	35/23	95/73	PC	35/24	95/75	H
New York	23/18	73/64	Sh	22/16	72/61	R
Nice	25/18	77/64	S	27/18	81/64	S
Osaka	28/17	82/63	PC	28/19	82/66	C
Paris	24/13	75/55	S	27/13	81/55	S
Riyadh	37/24	99/75	S	37/23	99/73	PC
Rome	28/16	82/61	S	27/15	81/59	S
San Francisco	24/13	75/55	S	22/12	72/54	PC
Sao Paulo	21/16	70/61	PC	29/18	84/64	S
Seoul	26/16	79/61	C	21/12	70/54	R
Shanghai	28/23	82/73	Sh	27/22	81/72	R
Singapore	32/25	90/77	T	30/25	86/77	T
Stockholm	17/10	63/50	PC	21/11	70/52	PC
Sydney	22/13	72/55	Sh	22/11	72/52	R
Taipei	32/26	90/79	T	31/26	88/79	T
Tel Aviv	28/20	82/68	S	28/19	82/66	S
Tokyo	25/19	77/66	PC	26/20	79/68	PC
Toronto	21/14	70/57	C	18/13	64/55	C
Tunis	24/16	75/61	Sh	25/15	77/59	Sh
Vienna	23/12	73/54	PC	20/14	68/57	PC
Warsaw	18/9	64/48	PC	17/10	63/50	C
Washington	27/19	81/66	C	27/16	81/61	T

Bottoms up with that value meal?

NEW YORK

For some takeout chains, adding alcohol to menus isn't worth the trouble

BY STEPHANIE CLIFFORD

RYAN WILLIAMS FOR THE NEW YORK TIMES

Steve Lombardi with a beer at a Starbucks in Seattle. The coffee chain is testing wine and beer sales in five stores in the northwestern United States to attract customers at night.

Some restaurant chains are turning to the bottle during the rough economy but have found mostly headaches, not happiness.

Outlets that specialize in quick and cheap daytime meals — including Starbucks — have been experimenting with adding alcohol to their menus. Pret a Manger, the British sandwich maker, is considering adding wine in its new Paris stores, and Burger King began selling beer last year at its more expensive Whopper Bars in the United States.

With alcoholic drinks among the highest-margin items on a menu, selling beer and wine can lead to increased earnings.

"Alcoholic beverages are highly, highly profitable," said Bonnie Riggs, a restaurant industry analyst at a market research firm, the NPD Group. "It's been such a challenging time for the restaurant industry, I think they're trying to pull out all the stops and try different ways of getting consumers to the restaurant."

But some of the chains say that so far, the menu changes have created a lot of trouble with little reward. Customers apparently just do not think a value meal pairs well with a cabernet, and the logistics involved with selling alcohol can be daunting and expensive. The problems include obtaining permits, training a staff that has high turnover, slowing down service when ID's have to be checked and finding dedicated areas for alcohol service.

"Fast-food restaurants aren't set up to be bars," said David Henkes, who advises restaurants on alcohol sales at the consulting firm Technomic. "Based upon the amount of sales that most restaurants would get from alcohol, it's just not feasible for most restaurants to do it."

In the United States, with so many employees younger than 21, which is the legal drinking age, fast-food restaurants have a particularly hard time with alcohol service, said James M. Seff, a lawyer who advises wineries and breweries at Pillsbury Winthrop Shaw Pittman, a law firm based in New York.

"If someone is 18 and a buddy comes in who's 18, chances are better than otherwise that the minor will serve them," he said. "The regulatory authorities will murder them if there is a pattern in practice of service to minors."

Sonic, a drive-in chain based in Oklahoma City, added beer and wine to the menu at its new Homestead, Florida, location in July. The addition was based on nearby restaurants' menus, and it was meant to bring in customers at night, said Drew Ritger, senior vice president of business planning and purchasing at Sonic.

"When you stand on our patio and look around, you will see almost every concept that is around us has some type of patio feature, and they serve beer and wine," Mr. Ritger said. "It gave us an opportunity to really drive our evening traffic."

But the alcohol sales have come at a cost. In addition to the normal hurdles, like obtaining a license to sell beer and wine and training employees to serve the drinks, the restaurant had to hire security guards to keep away underage drinkers, and it expects insurance rates to increase, he said.

And for what return? "Candidly, they're not utilizing those products very much at this point," he said. "It doesn't look like it's a big deal to consumers — it's clear they come to us to have an extra-long cheese coney or an all-beef hot dog."

The bumpy rollouts have other chains limiting their ambitions, or at least proceeding cautiously.

Pret a Manger, which is based in London, sells alcohol in some of its airport locations in addition to considering wine in Paris. But Clive Schlee, the company's chief executive, said it was not an important part of the business, and he did not expect it to be.

Starbucks is testing wine and beer sales in five stores in the Pacific Northwest. Three-quarters of its store traffic in the United States occurs before 2 p.m. each day, said a spokesman, Corey duBrowa, and the alcohol is meant to attract nighttime customers. While feedback has been positive, Mr. duBrowa said, Starbucks has not announced plans to offer alcohol beyond those five stores.

Burger King has gotten a firsthand lesson in how difficult selling alcohol can be. In 2009, it began opening Whopper Bars as a more upscale complement to its fast-food locations. The Whopper Bars serve items like a Bourbon Whopper and a New York Pizza Burger, and customers choose additional toppings like pepperoni, onion rings or guacamole.

The company started selling beer at Whopper Bars in the United States in 2010, but although Burger King has 10 Whopper Bars worldwide, it serves beer at only six of them, in part because of licensing issues. Last summer, for instance, it opened a New York location near Times Square and promised that it would have beer within weeks. But the store has still not received approval for a liquor license and has given up on plans to serve beer for the time being, said Michelle Miguelez, a Burger King spokeswoman.

In a sign of just how hard it is to add anything alcohol-related to a menu, Burger King tested a nonalcoholic breakfast mimosa in some cities last year, made of orange juice and Sprite. But advocacy groups objected, saying even a nonalcoholic mimosa was inappropriate at a family restaurant. The drink is no longer being served at any restaurants, Ms. Miguelez said.