

BARBARIAN AT GATE G17

**Bjørn Kjos is betting \$22 billion he
can build the cheapest global airline**

By Devin Leonard

Photograph by Francesco Nazardo

It's snowing in Copenhagen as Norwegian Air Shuttle Flight DY7041 lifts off. There are nearly 300 passengers on board, most of them Norwegians, Swedes, and Danes eager to escape the gloom that engulfs their part of the world in late November. Today they will arrive in Florida faster than usual. This is the first direct flight from Scandinavia to Fort Lauderdale. And it's a bargain: The tickets are a fraction of what larger airlines charge.

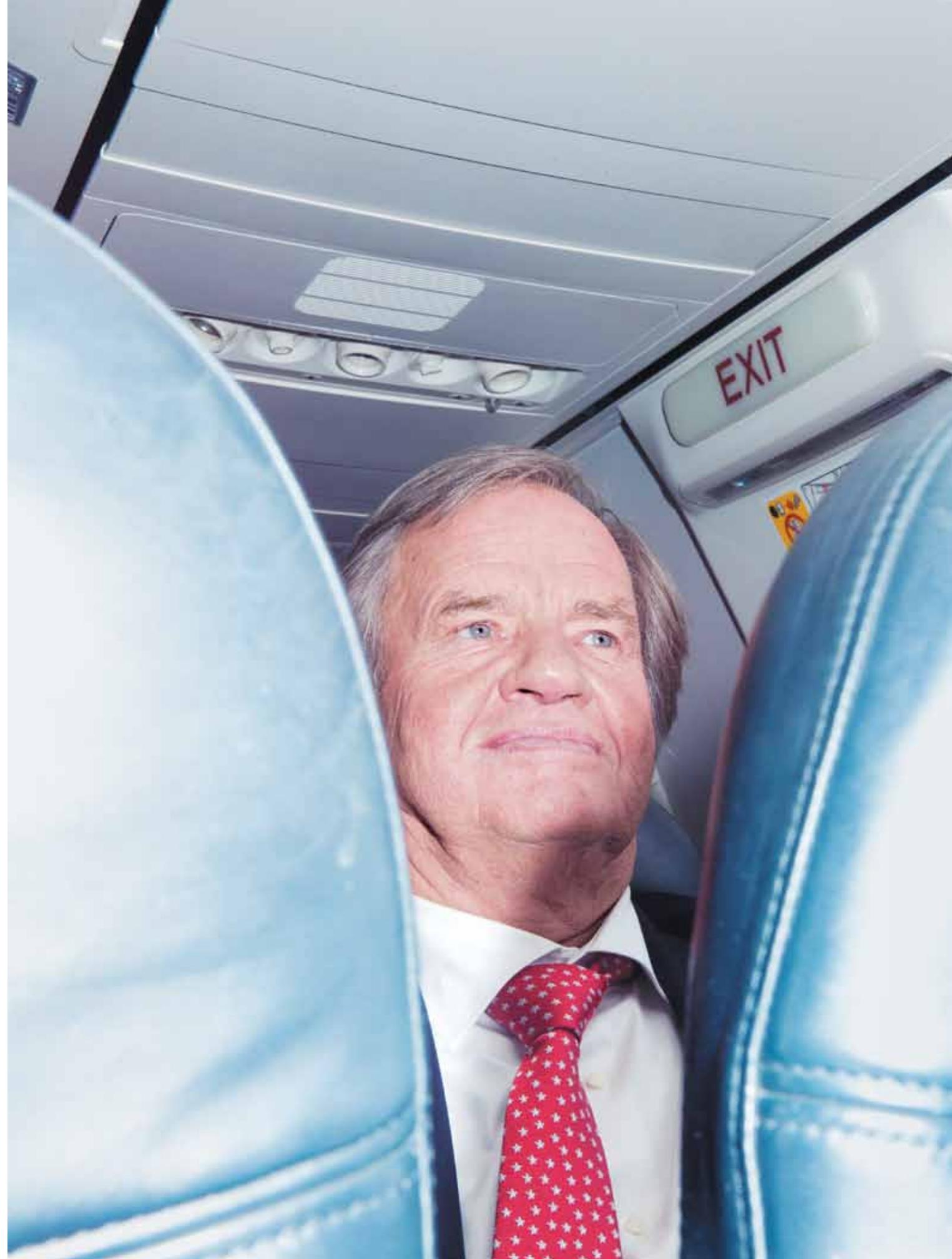
Norwegian Air Shuttle Chief Executive Officer Bjørn Kjos has come along to celebrate the occasion. A tall, energetic 67-year-old with gray hair that falls over his collar, Kjos holds court in first class. He is accompanied by an entourage that includes his son Lars Ola, who runs Norwegian's customer loyalty program; the company's chief financial officer; and two important investors. Plaid-jacketed crew members from Thailand hover around their boss making sure his plastic water cup is never empty. Kjos is in an ebullient mood. He laughs a lot. His steely guffaws are like a bebop trumpeter's high notes, crisp and resonant.

"A lot of Scandinavians go to Florida today," Kjos says in heavily accented English, noting that the sold-out flight bodes well for his plans for trans-Atlantic service. "Obviously a lot more will go in the coming years." The Nordic snowbirds are traveling in one of Norwegian's new Boeing 787 Dreamliners. Kjos extols the jet's fuel

efficiency, its noticeably quieter engines, and the fresher air and lower cabin pressure that are meant to reduce jet lag. "I never get jet-lagged when I fly," he boasts.

Norwegian is Europe's fourth-largest discount airline. Until recently, it was little known outside Scandinavia. Then, in 2012, Kjos made the largest airplane order in European history, buying 222 jets from Boeing and Airbus Group for \$21.5 billion. Most of these are narrow-bodied Boeing 737 MAX8s and Airbus A320neos that will begin arriving in 2016. Kjos will use them to increase Norwegian's presence in Europe and challenge the top three discount carriers: Ireland's Ryanair, Britain's EasyJet, and Germany's Air Berlin. Last year, Norwegian acquired its first two Dreamliners, which list for as much as \$289 million each. Kjos is using these wider-bodied jets to offer cheaper international flights to distant places such as New York, Los Angeles, and Bangkok, undercutting established carriers in Europe and the U.S. Norwegian's \$180 tickets between New York and Oslo cost 10 percent of the equivalent ticket on British Airways. In effect, Kjos wants Norwegian to become a global version of Southwest Airlines.

Other upstart airlines have tried this and failed. Kjos says Norwegian will succeed because it has the Dreamliner and a new group of travelers to fly: the emerging middle-class ➔



citizens of China and India. He predicts that in the next decade there will be 500 million new airline passengers, and he hopes to attract them with low fares.

Kjos will have to do many things right for it all to work, and he's already run into turbulence. He narrowly averted a strike by 600 pilots in November. They are unhappy with his plan to base Dreamliner flights outside Norway and staff them with lower-paid workers from Thailand and elsewhere. The Dreamliner still needs debugging. Kjos's new jets have been grounded repeatedly by technical problems, delaying flights. Since early June, Norwegian's share price has tumbled from 312 kroner (\$53) to 197 kroner (\$32). Short sellers are circling, betting that Norwegian's expansion will be a bust. Four U.S. airlines are trying to keep the U.S. Department of Transportation from allowing Norwegian flights into the country because they worry that their foreign competitor will launch what they describe as an unfair price war with them.

Kjos, however, doesn't think anything will get in the way of his plan to reshape international travel. "In the future, you will travel to Asia for nothing," he says. "You think I'm joking. You wait and see."

Obscure outside the aviation industry, Kjos is a celebrity at home; he's Norway's Richard Branson. In the early Aughts, Kjos introduced low-cost flights to a region that has historically been dominated by Scandinavian Airlines (SAS). At the time, SAS, which is controlled by the governments of Norway, Sweden, and Denmark, had some of the highest fares in Europe. "He has changed the lives of many, many Scandinavians," says Hans Erik Jacobsen, an analyst at First Securities ASA.

Kjos also became a face of the New Norway. As the country has become an economic power thanks to oil in the North Sea, it has seen a new generation of entrepreneurs challenge insular stereotypes. "Keep in mind, Norway used to be the very poor kid in Europe, like Albania," says Truls Berg, an angel investor in Oslo and an admirer of Kjos. "Nobody really understood why anyone was living up here."

He grew up in the village of Sokna, about an hour north of Oslo, known for its extremely cold winters. His father, Ola Kjos, ran a sawmill and also owned a Piper Cub that he used to take aerial photographs of his neighbors' farms for extra income. Bjørn began accompanying his dad on flights when he was 8. He loved flying so much that he enlisted in the Royal Norwegian Air Force. He spent eight years in the military, six of those happily patrolling the northern Norwegian border in an F-16. Almost every day, Russian pilots wandered into Norwegian air space. Kjos routinely chased them away. "You flew up and said, 'F--k off,'" he says, laughing. He later published a spy novel, *The Murmansk Affair*, inspired by the experience.

Kjos considered becoming a commercial pilot, but SAS wasn't hiring. So he decided to study law at the University of Oslo. He befriended Bjørn Kise, another student. Kise also had a working-class upbringing—his father and grandfather were grocers—and served in the navy. Both Bjørns married SAS stewardesses.

After graduating in 1978, Kjos and Kise started a maritime law firm. They say they took pleasure in besting rival barristers from blue-blooded families. "Bjørn is very persistent," says Kise, now chairman of the board of directors at Norwegian. "He always wanted to argue, argue, argue."

In 1993, Kjos got a call from two old air force buddies. They were working for a tiny airline called Busy Bee, which was on the verge of insolvency. Kjos looked at the books. Busy Bee had a lucrative

contract to fly a handful of routes for Braathens, a larger Norwegian airline. But Busy Bee's expenses were too high. It had 200 pilots and 25 planes. Kjos figured it could be profitable if it reduced its staff by 75 percent and its fleet to just five planes.

After Busy Bee went bankrupt, Kjos tried to get investors to take it over with Busy Bee's pilots. But hardly anybody was interested in purchasing shares—not even his old friends. So the two Bjørns acquired a controlling interest in five of its planes and routes in western Norway. They renamed the carrier Norwegian Air Shuttle. The two men moved their new company into an old military barrack to save money.

For eight years, the two Bjørns made a small but steady profit from their stake in Norwegian Air. But in 2001, SAS bought Braathens and canceled its contract with Norwegian Air. Kjos and Kise had a choice: They could shut down the little airline or they could compete with SAS. Kjos was smitten with the latter idea, but Kise had misgivings. He wasn't so sure it was wise for Norwegian, with 130 employees, to take on SAS, which had 7,556 employees and 199 planes. "I can't understand why during the last 20 years, I have constantly found myself standing with Bjørn with my toes on the edge of the mountain," Kise recalls saying at the time.

Convinced that SAS was vulnerable because of its high prices, Kjos took a leave of absence from his law firm and became Norwegian's CEO. "We said that our mission is to give low fares for anybody," he says. Norwegian leased new planes and sold seats before they arrived to cover their cost. It encouraged customers to buy tickets online. Rather than letting planes sit for hours on the runway, Kjos told his pilots and crews to get them back in the air within 20 minutes after landing.

The company went public in December 2003 at 32 kroner a share. Then, Kjos says, SAS reduced its prices in an effort to destroy its rival. (SAS denies that this was its intent.) Norwegian again lowered its prices. Its revenues dwindled, along with its stock price. The company decided to issue more shares to stay afloat.

However, Kjos and Kise feared they would lose control of Norwegian if they diluted their ownership stake. So they borrowed heavily and loaded up on the new shares.

Then, they say, they learned from government investigators that SAS had been tapping into Norwegian's computer system and using data about its ticket sales to underprice it. Norwegian sued SAS for illegally using its trade secrets, eventually winning a 160 million kroner judgment in 2010. SAS says it accepts the court judgment.

Kjos says the revelations ended SAS's predatory pricing, and Norwegian had its first profitable year in 2005. But Kjos soon had something else to worry about: rising oil prices. Oil had soared from \$25 to \$75 per barrel in the previous five years. Kjos and his top executives modeled what would happen if oil prices continued to climb at that rate. "We found out, Jesus Christ, if we hit \$120, we're going bankrupt," Kjos says. Norwegian's planes were burning too much gas. The company needed a new fleet to survive.

To hear Kjos tell it, Norwegian has been constantly shopping for new planes ever since to keep its fuel expenses and ticket prices down. In August 2007, Kjos reached an agreement to buy 42 new jets from Boeing for \$3 billion. Frode Foss, Norwegian's CFO, said the company couldn't afford it. "Frode, would you like to go bankrupt with old airplanes or with new airplanes?" Kjos swaggeringly replied. He later increased the order to 84.

Three years later, in 2010, revenue and profit had more than doubled. Norwegian was flying twice as many passengers and routes. The new planes "really enabled them to drive down the cost level," says Jacobsen. "It was a big step forward." Later that same year, Kjos ordered Norwegian's eight Dreamliners, but he also concluded that his newish fleet of short-range planes was already becoming outmoded. In 2012 he and Kise took advantage of the euro crisis to get favorable terms from both Boeing and Airbus for 100 planes. Now it was Kise's turn to be bold. "Let's take both these orders," he said. "Are you crazy?" Kjos replied. They ended up taking both orders and an additional 22 planes from Boeing.

The guy who pioneered cheap trans-Atlantic flights was Sir Freddie Laker, the late British entrepreneur who started the Skytrain service in 1978. He bought new planes to carry travelers between London and Los Angeles, New York, and Miami. The company collapsed in 1982 when its larger rivals retaliated by matching its fares.

Aviation experts say there's a reason nobody has rushed to emulate Laker until now. "When you put people on a long-haul flight, you've got to give them frills," says Jonathan Wober, a senior analyst at CAPA Centre for Aviation, an Australian consulting group. "You can't just expect them to fly for 7, 8, 9, 10, 12 hours without feeding them, without watering them, without giving them entertainment and all those kind of onboard extras, which cost money."

Norwegian's international routes will prevail, Kjos says, because the Dreamliner burns much less fuel than previous jets. "The Dreamliner is the first airplane that can do it," he says. He's also counting on lower personnel costs. Although the airline is headquartered in a country with some of the highest salaries in Europe, Kjos is trying to get around this by basing flights in lower-salaried countries such as Thailand. That's why Norwegian's pilots wanted assurances that he wouldn't try to use geography to cut their salaries. Vegard Einan, vice president of Parat, the union that represents Norwegian's pilots, says Kjos agreed that union rules would apply to the European routes but not the ones involving the Dreamliners. Kjos makes no apologies for playing hardball with his pilots. "You can't jeopardize your business model," he says. "You have to take a stand."

Norwegian also faces opposition in the U.S., where American Airlines, Delta Air Lines, United Airlines, and US Airways are urging the federal government to reject an application by Norwegian Air International. The company is a Norwegian subsidiary that Kjos has set up in Ireland to operate its Dreamliner flights. Norwegian's critics say Kjos is doing this so that he can hire cheap nonunion pilots and cabin crews. "[Norwegian's] scheme must be immediately and unequivocally rejected," Lee Moak, president of the Air Line Pilots Association International in Washington, said in a statement last month. "The DOT must not permit U.S. airlines and their employees to face an unfair competitive advantage from



Kise and Kjos, here aboard the Boeing 787 Dreamliner in 2012, met in law school before founding Norwegian

this runaway shop." A Norwegian spokesman, Lasse Sandaker-Nielsen, says the company isn't doing anything improper and its critics are making "false and misleading statements."

As for the Dreamliners, they have been problematic. The U.S. Federal Aviation Administration ordered Boeing to stop delivering them last year until it fixed their lithium batteries, which had caught fire. Norwegian's Dreamliners never burned, but one jet was grounded in Bangkok in September because of pump problems, stranding 200 passengers bound for Stockholm. In December, Stockholm-bound Norwegian customers were stuck in Fort Lauderdale before Christmas because of a disabled Dreamliner. On New Year's Eve, 276 passengers headed for Oslo spent the night stewing in hotels near John F. Kennedy International Airport in New York because of brake prob-

lems on one of the jets. Norwegian's Sandaker-Nielsen says the company apologizes for the delays.

Norwegian's tribulations have attracted a high level of attention because Kjos has been assiduously promoting the Dreamliners for three years. Last summer he flew one of the jets himself. He says it was fun but nothing like piloting an F-16. "If you have been driving racing cars for eight years, it might not be the same joy to drive a cab," he says.

With each Dreamliner snafu, Kjos made no secret of his displeasure with Boeing. He says he purposely leased an Airbus to transport his customers between Stockholm and Bangkok while 15 Boeing technicians labored to resuscitate one crippled jet. "It was a brand-new aircraft," he says. "I said, 'S--t, I don't accept it.'"

The setbacks help explain why short sellers are targeting the company. They now hold 18 percent of Norwegian's shares, according to Markit, a financial-services group. That's a lot when you consider that shorts hold only 3 percent of EasyJet's stock

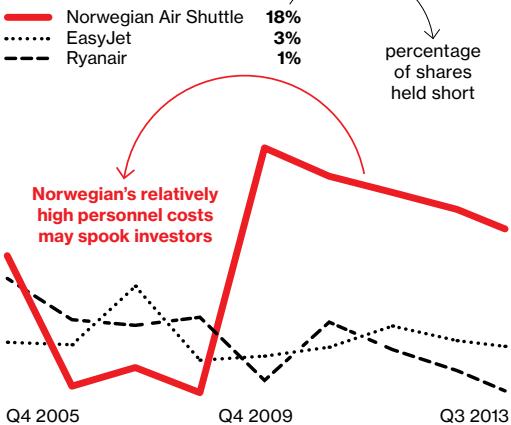
and 1 percent of Ryanair's. "There are people who don't believe in this company right now," says Thomas Raascou, chief investment officer of Awilco Invest in Oslo, who has been buying shares recently.

Kjos responded to the latest crisis by doubling down. He announced in December that Norwegian would lease two more Dreamliners. He has yet to grow weary of having to choose between expanding Norwegian or losing it all. He says he sometimes misses the excitement of being a litigator. "But it's more fun to run an airline," he laughs.

On Flight DY7041 to Florida, everything goes smoothly until the plane touches down. It's cheaper to fly into Fort Lauderdale than Miami. But Fort Lauderdale-Hollywood International Airport isn't equipped to handle large planes during peak hours. The Dreamliner can't taxi to the terminal. The dazed passengers disembark onto the tarmac and climb aboard a shuttle bus, which becomes uncomfortably crowded. Kjos joins them. As if to distract them from the inconvenience and keep the mood high, he says, in a booming voice, "Welcome to Florida!"

Sky-High

Labor costs as a portion of operating expenses



"DURING THE LAST 20 YEARS, I HAVE CONSTANTLY FOUND MYSELF STANDING WITH BJORN WITH MY TOES ON THE EDGE OF THE MOUNTAIN"