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Greece's Olive Oil Industry Offers a Lesson on Economic Hurdles

The country is a major producer of 'green gold,' but sells much of it in bulk

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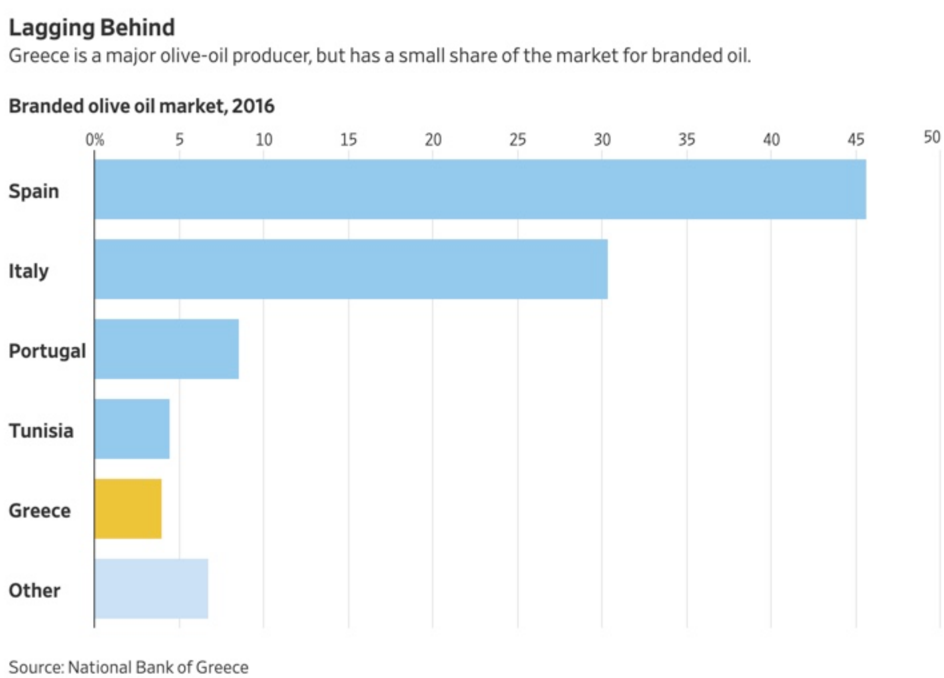
STREFI, Greece—Workers at Yiannis Skiadas ' mountainside mill pressed prized Kalamata olives on a recent day to extract the thick, fragrant oil known regionally as "green gold"—most of which would get shipped abroad in bulk and blended into Italian olive oil.

Mr. Skiadas could earn almost three times as much by branding his oil and selling it himself. But that would require investing in every step from cultivation to marketing, and quick cash from Italian customers is appealing after a decade of economic pain in Greece.

"Thank God for the Italians," he said.

Greek olive oil should be a shining example of the country's export sector. Instead, it offers a lesson in why Greece remains deeply uncompetitive despite years of pressure to fix its economy.



Greece has what should be significant competitive advantages, including a climate that is favorable for agriculture and a 22% drop in labor costs since 2010, around the start of the Greek debt crisis.

But the country has been unable to leverage its low cost base to pull itself out of economic malaise. The value of Greek exports fell last year, despite years of efforts aimed at promoting export-led growth. Just 2.5% of Greek enterprises are involved in export activity, according to a recent survey by Ernst & Young.

Bank lending is scarce in a country mired in debt. And Greece's notoriously inefficient bureaucracy makes it time-consuming to secure health and safety approvals and export paperwork, according to Greek exporters.

Similar problems affect other Greek agricultural products from peaches to wine. Exports of textiles and household appliances have also slipped in recent years.

Konstantinos Rikas harvests olives near the village of Strefi, Greece.

The failure of Greece's olive-oil makers to break into the international market for branded oil is especially painful. Greece is the world's No. 3 producer of olive oil, according to Eurostat, but just 4% of branded olive oil sold world-wide is Greek, according to a 2015 report by the National Bank of Greece .

The reason: Greek olive-oil producers have mostly stuck to making bulk oil, unable or unwilling to invest in making the branded product that can command lofty prices in foreign markets. Only

27% of Greek olive oil is exported as a branded product, compared with 50% from Spain and 80% from Italy.

“Greece hasn’t invested to create a brand name, as have Italy and Spain,” says Christina Sakellaridi, who heads the Greek Exporters Association. “Now it’s difficult to compete with them.”

By sticking with bulk oil rather than branded oil, Greece is forgoing about €250 million ($294 million) in revenue each year, according to the National Bank of Greece report, money the capital-starved country desperately needs.

Many Greek olive farms and mills are family-operated and have fewer than 10 employees, according to olive-growers’ associations. Their small size leaves them with little of the money and management skill needed to upgrade their products and establish a brand name.

Georgios Skarpalezos at his family-run olive mill in the village of Malta, Greece.

For those who do invest, the payoff can be significant. Before the crisis, Georgios Skarpalezos sank money into new machinery for his mill. Now he makes extra virgin olive oil that he sells in, among other places, London’s Harrods department store. He makes as much as €4 a liter, while a middleman, usually an oil-mill owner, might make as little as 10 to 20 euro cents a liter on bulk oil.

“I cannot produce huge quantities, because I have to focus on the quality of the product,” said Mr. Skarpalezos, showing dark glass bottles designed to safeguard the oil.

Olive-oil producers also often need to import products such as Mr. Skarpalezos' glass bottles and plastic caps.

Yiannis Skiadas, top, holds Kalamata olives. Bottom, woven bags containing pressed olives at the Skarpalezos family mill.

To produce bottled extra virgin olive oil, local farms would have to pay an agronomist to check their fields at least twice a year to make sure they are disease-free and send soil and olive samples to labs to check the type of fertilizers or herbicides used. The trees would have to be irrigated and pruned according to specific rules.

Because of the difficulty in borrowing money, Mr. Skiadas said he and his suppliers also can't spend to upgrade their final product. Many, for instance, don't buy crates or fabric sacks designed to keep picked olives fresher, sticking instead with plastic sacks that lack ventilation.

Mr. Skiadas also shuns the cold-press method that mills must use to label their product virgin or extra virgin olive oil, instead pressing the olives at high temperatures because that yields up to twice as much oil.

Mr. Skiadas believes that the quality of the product is the same. "All these intermediate steps lead to a rise in our costs," he said.

Bottles are filled with olive oil at the Skarpalezos family mill.

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