Why regulation — on yogurt and more — is blocking Greece's recovery

By Peter Gumbel | MARCH 11, 2014

The news that Greek-style yogurt maker Chobani is looking to sell a minority stake that would value the company at around $2.5 billion should in theory be a big boost for Greece's beleaguered dairy industry.

But instead, the main beneficiary will be Chobani's Turkish founder, who operates the company in upstate New York, and who has proved to be innovative in a way that Greek dairy farmers are not. In fact, they are so stuck in their traditional ways that it's actually illegal in Greece to call low-fat yogurt "yogurt." Any variant that contains additives of any sort must be labeled "dessert of yogurt," which is akin to waving a warning flag at consumers.

That sort of rigid regulation is the norm in Greece, and not just in agriculture. Examples abound. There's a rule dating back to the 1970s that prohibits producers of apple vinegar from packaging it in anything other than one liter bottles. Another set of regulations, this time from the 1980s, outlaws bulk sales of mayonnaise and the import of some types of cloves. Supermarkets are prohibited from selling aspirin. Fresh milk is required by law to have a shelf life of just five days. As for olive oil, one of the staples of the Mediterranean diet and an important source of revenue for the Greek economy, producers are strictly forbidden from blending it with vegetable oil for domestic consumption. The rationale: olive oil is at the core of the Greek diet, and the health of the population is at stake.

These rules are among the hundreds of restrictive business practices in Greece that a team from the Organisation of Economic Cooperation and Development identified last year, as part of an 11-month investigation commissioned by the Greek government. In its report the OECD made 329 recommendations for rules that should be changed to open up competition and give a much-needed boost to the economy.

Quantifying the cost of these restrictions is a difficult task, but in 66 cases, the international experts did figure out a way to do so. Eliminating them would lead to a positive effect on the Greek economy of 5.2 billion euros, or just over $7 billion, they calculated. While that may not seem like a huge sum, in today's Greece, every penny counts. Kostis Hatzidakis, the Greek minister for Development and Competitiveness, is promising action "very soon" to retire some of the most intrusive rules that he says are holding back his nation's competitiveness.

That is easier said than done, and not just in Greece. In many European nations, a similar patchwork of rules limit competition, protect existing monopolies or otherwise restrict businesses for sometimes archaic reasons. In France, for example, there's currently a battle raging between retailers wanting to open on Sundays and labor unions who have successfully filed court actions to stop them.

John Van Reenan, director of the London School of Economics' Centre for Economic Performance, says this sort of overregulation holds back innovation and economic growth and explains, in part, the gap in material wealth between Europe and the United States. "It's a very big issue," he says. "It takes a lot longer for European business to grow and achieve scale."

Certainly, there's evidence that attacking producer monopolies and eradicating archaic restrictions can boost economic growth. Australia began doing so in 1995, with the creation of an independent "Productivity Commission." The commission has calculated that over its first 10 years, the changes put in place — especially in key infrastructure sectors such as electricity, urban transport and communications — increased Australia's gross domestic product by about 2.5 percent.

Even by European standards, Greece stands out as having especially tangled regulation and glaring inefficiencies. For example, as a result of the rule that gives pharmacies a complete monopoly on sales of all over the counter drugs, including dietary supplements, there are three times the number of pharmacies per inhabitant in Greece than in the EU on average, the OECD found.

But changing that state of affairs is controversial. Many argue that tradition is more than just a question of economics, but a way of life. Minister Hatzidakis is facing pushback for his reform plans from several cabinet colleagues — and intense pressure from industry lobbies. On March 10, the Panhellenic Pharmacists' Union began a two-day strike to protest the plan to allow supermarkets to sell aspirin and some other drugs, holding up placards in central Athens reading "health is a human right." Among their arguments: consumers may unwittingly overdose if drugs become easier to purchase.

Some of the biggest fuss has been prompted by the recommendation to allow producers to blend olive oil with vegetable oil. These blends are currently exported, but are not allowed to be sold in Greece itself — even though Spanish and Italian blended oils are on sale there. During a debate on the issue in parliament, one MP, Fevronia Patrianakou, termed the proposal "a cause for war."

Another highly controversial recommendation is to end the statutory 5-day maximum shelf life for fresh milk — a rule that the OECD says actually means some far-flung Greek islands never get any. In other EU countries, shelf life is usually set by producers themselves, based on hygiene norms. So far, Greek dairy producers are lobbying against the change, with support from the Agriculture Ministry.

The pushback isn't surprising. "The usual argument by insiders is that the world will fall apart if anything changes," says Prof. Van Reenan of the LSE. "But that's a smokescreen for protecting oligopolies."

Ultimately, the Greek producers may be the main beneficiaries, even if it means they have to change. Clinging to old ways of doing things and keeping out competition can be lucrative, but it's a crimp on innovation.

Just ask Chobani's multimillionaire founder.