

Proceedings and conclusions - Sub-regional Meeting

Productivity, Competitiveness and Job Quality in the Garment Industry in South Asia, Kathmandu, 25-26 September 2001

A two-day Sub-regional Meeting on Competitiveness, Productivity and Job Quality in Garment Industry in South Asia was organized by the ILO (International Labour Organization) in Kathmandu during 25-26 September 2001. A copy each of the programme and the list of participants is attached at the end of these proceedings. Thirty-one participants from five South Asian countries - Bangladesh, India, Pakistan, Sri Lanka and Nepal - representing various government agencies (such as Ministries of Labour, Industries, Textile and Commerce), workers and employers' organizations, garment manufacturers and exporters' associations, and resource persons participated in the meeting. The purpose of the meeting was to discuss the issues being faced by the garment industries due to impending removal of the quota system upon termination of the MFA (Multi Fibre Agreement) by the end of the year 2004. It was expected that the cross-country experiences of the participating countries would help devise ways to minimize the adverse impact on job quality and to further improve productivity and competitiveness.

1. Inauguration

The workshop was opened by the Nepalese Minister for Labour and Transport Management, who stated that development of a strategy to improve productivity and job quality in the garments industry has become urgent since increasing globalization has already started to place pressures on the quantity and quality of employment. The Minister further stated that the Ministry of Labour and Transport Management in Nepal realizes the importance of social dialogue for enhancing productivity. The Labour Act and the Trade Union Act are being amended in Nepal to further increase tripartite coordination. He urged the participating countries to develop a strategy for alternative options to compete in the global market since the garment industry in general has been so far dependent on quota for its growth.

Earlier welcoming the participants, Ms. Leyla Tegmo-Reddy, Director, ILO Kathmandu office pointed out that the ILO has been naturally extremely concerned about potential job losses in large numbers and the deterioration of the working environment as a result of competitive pressures resulting from phasing out of MFA. Speaking on behalf of the SAARC Secretary General (South Asian Association for Regional Cooperation), Mr. Amit Dasgupta, SAARC Secretariat Director for Economic Trade and Transport, stated that there is a need for greater degree of coordination among apparel industries in South Asia. He suggested that SAARC Secretariat could play a role in facilitating the process of setting up a mechanism for greater cooperation and complementarity among the garments industries across the sub-region. Employers and workers' representatives spoke about the importance of improving efficiency and job quality in the industry, for which social dialogue would play an important role.

2. Technical Sessions

Two technical presentations were made by Mr. Gopal Joshi, Senior Enterprise Specialist SAAT New Delhi. Providing an overview of the garments industry in South Asia on the first day, Mr. Joshi pointed out that there has been a phenomenal rise over the last few years in garments exports and employment in the industry, with large percentages of female workers (as much as 90% for Bangladesh and Sri Lanka) joining the manufacturing jobs. These jobs are, however, increasingly in jeopardy as the garments industry has grown on the basis of the availability of the

quota from developed countries, which is going to be removed at the end of the year 2004 upon termination of MFA. He further stated that as the competitive pressures increase, the garments industry in South Asia can take the 'low road' of price competitiveness with low wages and bad working environment or 'high road' of high value addition and better job quality.

During the second presentation on international perspective, Mr. Joshi pointed out that there is a trend of increasing regional trade at the country level to benefit from proximity and flexibility and of integration and complementarity across the countries and continents at the level of enterprises so as to enhance their competitive position in the world market. The industries operating in the fringes of value chain, offering heavily discounted commodity, are bound to come under heavy pressures as globalization takes effect. Therefore, it is imperative that both the countries and industries need to increase their cooperation and complementarity to increase their competitiveness.

3. Country Presentations

Country presentations describing the state of employment, job quality and competitiveness in the respective garments industry in five South Asian countries were presented by the respective resource persons.

3.1 Bangladesh

Presenting the country paper on Bangladesh, Dr. Nasreen Khundkar pointed out that the growth of garments industry in Bangladesh is the direct result of the MFA and other trade agreements. It has had free market access to EU markets and the US which also gave Bangladesh sizeable quota thus turning it into one of the important suppliers to both American and European markets. The economic importance of the garments industry for Bangladesh is signified by the fast rise in its share from 4 percent of the total exports in 1983 to 76 percent in 1999-2000. The industry employs 1.5 million workers, 90 percent of whom are female workers.

Once quota is removed, Bangladesh is expected to suffer from its lack of textile industries and poorly developed infrastructure. Although Bangladesh seems to enjoy the low wage cost advantage, it also suffers from low productivity and poor job quality.

Dr. Khundkar predicted that the initial impact of the phasing out of the MFA would be highly disruptive. Thousands of jobs will be at stake, particularly for women workers, and working conditions are expected to further deteriorate. The strategy for further improving competitiveness of Bangladesh garments industry should include: (a) market diversification; (b) product diversification to include high value fashion wear; (c) backward linkages to reduce the high dependence on imported inputs; (d) productivity improvement through improved job quality; and (e) responsiveness to consumer ethics and labour standards.

3.2 India

Presenting the country report on India, Dr. M. Vijayabaskar stated that in the initial phases of Indian apparel exports, USSR and Eastern Europe were the largest markets, but by 1999 a major share of Indian garments exports was destined to the US and European markets. Indian exports to these countries have been subject to quantitative restrictions. Since quota given to India in most developed countries have been fulfilled, analysts expect that the removal of the

MFA restrictions would enhance the ability of Indian exports to penetrate these markets. Exports to non-quota countries have recently grown at a much higher rate than that for quota countries, indicating a degree of competitiveness of Indian apparel. However, 51 per cent of the garment exported continues to be governed by quota restrictions.

The presentation outlined the possible elements of the strategy to be followed in the post-MFA environment for enhancing competitiveness as: (a) promotion of mass marketing for achieving the scale of economy; (b) enforcement of international labour standards; (c) moving up the value chain by targeting the specific niches; and (d) creation of a competitive environment in the domestic market through promotion of fashion design facilities.

3.3 Nepal

Dr. Dinesh Pant presented the country study of Nepal. He pointed out that the employment in the garments industry has come down to 25-30,000 workers from 100,000 in early nineties along with decline in the number of garment industries. Remaining jobs are expected to be further threatened as the quota system is abolished since the garments industry in Nepal has grown as a spillover from the neighbouring country. The competitiveness of the garment industry in Nepal is particularly constrained due to transportation costs and low productivity.

Workers in the industry state the lack of contract and other rights and benefits normally available to the manufacturing workers. They seem to feel that the situation is further aggravated due to existence of the foreign workers in the industry. On the other hand, employers are likely to seek to reduce the wage costs as the competitive pressures build up after the removal of the quota at the end of 2004.

The country report recommended formulation of a national strategy with: (a) focus on high value products; (b) product and market diversification; (c) development of backward linkage industries; (d) completing dry port projects; (e) utilization of WTO provisions for least developed countries; (f) improvement in human resource management for enhancing productivity; and (g) upgrading technology and processes.

3.4 Pakistan

On behalf of SMEDA (Small and Medium Enterprise Development Authority), Mr. Nabeel Goheer stated that with more than 700,000 workers, the garment industry is the single largest industrial employment provider in Pakistan. The labour force in the industry is dominated by male workers (90 percent) as labour laws in the country have regulatory restrictions on women's employment like working hours, maternity benefits, etc.

Phasing out of the MFA is likely to open new opportunity in the product segments at the top of the textile value chain. At the same time, it would adversely affect the growth of exports from developing countries; such as Pakistan, which are dependent on a limited product range and are competing in the global market on the basis of the price advantage rather than quality.

In Pakistan, the existing quota policy not only discourages diversification but also hampers the entry of new exporters through imposition of high entry barriers in the shape of huge investments in quota procurement. In the areas of labour costs and the costs of other inputs, Pakistan is still competitive in apparel manufacturing. The total cost of garments is below the average unit price realization of different competitors.

The country report recommended a strategy that would include: (a) human resource development; (b) diversification of export destinations; (c) tapping the regional market; (d) seeking preferential treatment from developed countries as a regional bloc; (e) innovative product development through promotion of design facilities; and (f) instituting liberal import regime for importation of the inputs and equipment

3.5 Sri Lanka

Presenting the country report on the Sri Lankan Garment industry, Dr. Saman Kelegama from IPS stated that the industry has experienced phenomenal growth after the late 1970s and has continued to be the strongest manufacturing sub-sector in terms of its contribution to total exports, foreign exchange revenue, contribution to GDP and the significant proportion of employment generated within the industry. The quota system virtually guaranteed markets for many Sri Lankan manufacturers, especially those manufacturing standard garments and competing on price. This guaranteed period would be over in 2005 with the dismantling of the quota regime, which will compel the industry to compete for its market share in an intensely competitive global market.

Posing the question with regard to the likely impact of the phasing out of the MFA on labour in the Sri Lankan Garment Industry, Dr. Kelegama provided the following scenarios based on the responses received from the industry:

- ✓ The weaker garments industries are likely to shrink.
- ✓ There may be some unemployment in the short term, which is likely to be absorbed into the remaining enterprises in the long run.
- ✓ Labour conditions will improve due to buyers' increasing labour standard requirements.
- ✓ Wages are not likely to be reduced.
- ✓ Improvement in job quality would definitely have a positive impact on productivity.

The presenter suggested formulation of a national strategy for the garments industry with the resolve to: (a) improve productivity; (b) undertake human resources development; (c) develop product quality; (d) increase investment in technology; (e) develop codes of business conduct; (f) implement the standards on working conditions; and (g) develop export alliances.

4. Panel Discussions

Panel discussions were held at the end of country presentations, during which the panelists representing the government, employers and workers made comments on the country papers presented and further raised the issues for discussion. Mr. Atul Chaturvedi, Joint Secretary Ministry of Textiles, Government of India, chaired the first panel discussion on the presentations on Bangladesh, India and Nepal. Mr. Mohammad Abu Taher, Joint Secretary, Ministry of Labour and Employment, Bangladesh, chaired the second panel discussion on the presentations on Pakistan and Sri Lanka.

During the discussions, Government representative from Bangladesh pointed out that the country has been exporting under the GSP (General System of Preferences), which is not exactly the quota system. However, this arrangement is also subject to the discretion of the developed countries. The employers' representative from Nepal pointed out the need for the strategic

alliance among the garment manufacturers and exporters throughout the sub-region. The employers' representative from India stated that there should also be networking of the firms within the country as a strategy to deal with the removal of the quota system.

The need for labour market flexibility was raised during the discussion for the firms to be able to compete in the globalized market. However, it was pointed out by the workers' representatives that the flexibility should be based on the employability of the workers, who have opportunity to upgrade their skills and choose employment opportunities in the labour market. The employers' representative from Sri Lanka pointed out the need for intensified training of the workers with the establishment of training schools catering solely to textile and garments. The employers' representative from India pointed out the need for formalizing the training being given by various training organizations.

Lack of clarity in the labour laws in South Asia was pointed out by the employers' representatives. Mr. Anton Marcus representing workers from Sri Lanka pointed out the need for labour law reform. He also urged inclusion of labour standards in the social charter of SAARC (South Asian Association for Regional Cooperation).

Regarding job quality and productivity in the garments industry, workers' representatives pointed out the need for gain-sharing schemes, which would provide incentives for improvement in productivity. The workers' representatives emphasized that incentive for the workers would help in the job quality of the workers. It was pointed out by the representative from India that female dominated industry has traditionally lower wages. The government representative from Sri Lanka pointed out that the wages for both male and female are the same, but the female workers endure other forms of difficulty, i.e., harassments, hardship in travel to and from work, dual responsibility of family and work, etc.

Regarding the temporary workers, the workers' representatives noted that as the garment industry depends more on external factors; such as, seasonal demand and tight delivery schedule, sub-contracting resulting in hiring of temporary workers is quite prevalent. The workers' representative from Pakistan pointed out that since no registration of contract workers takes place and since many of them are migrant workers, they are deprived from the regular benefits available to other workers. The employers' representative from Sri Lanka stated that the buyers from importing countries do not allow casual labour in the industry. However, the workers' representative disputed by stating that though trade unions have fought for permanent employment and welfare provisions, there was no legal binding for the household units to provide any permanent provision to the workers. It was generally agreed that the lack of social security system has been a major disadvantage for the temporary workers. It was, therefore, agreed that a tripartite discussion needs to be organized for working out the safety net for temporary workers.

The chairmen of the panel discussions provided their concluding remarks at the end of each of the panel discussions. Small and micro enterprises may have difficulty in surviving the full force of globalization as the quota system is removed. There needs to be greater cooperation among the countries in the sub-region for promoting complementarity among the respective industries and in attaining vertical integration among different levels of enterprises within the industry.

Until now, the basic foundation of this industry has been low wages accompanied by low productivity and low value added. One of the suggestions floated during the discussion was that South Asian garment manufacturers need to move up in the value addition chain because they have so far remained as suppliers of the garments at the lower end of the chain.

5. Conclusions

The participants were then divided in three groups for discussion on the issues raised during the meeting and for providing recommendations for consideration by the governments and social partners. The representatives from the governments and social partners presented the conclusions of the group discussions.

5.1 Employers. The employers' representatives summarized the conclusions reached during the group discussion by pointing out the challenges faced and strengths inherent in the garments industries in the sub-region. The challenges were mainly concerned with weak infrastructure, rising competition, unemployment, weak implementation of labour standards and low product quality. The industries also have inherent strengths of domestic demand potential, large pool of labour and local fabric in some of the countries. While trying to mitigate the weaknesses, the industries need to utilize the inherent strengths to the extent possible. It has been concluded that each of the three parties - employers, workers and governments have roles to play in formulating a strategy to deal with the post-MFA environment of competitive environment in garments trade.

The employers in the participating countries were urged to:

- adopt and implement the labour standards and monitor the compliance among the SAARC countries;
- explore new market for diversification of the export destinations;
- regularly liaison with the government, ILO, SAARC secretariat and other related agencies in establishing improved working methods;
- further upgrade the manufacturing facilities and re-strategize and right size the structure for meeting the new challenges;
- reactivate the SAARC- Japan Fund for establishment of social infrastructure, such as hostel/ residential facilities for workers employed predominantly in EPZ;
- establish a SAARC backed capital market funded by World Bank/IMF/ADB for financing business activities, upgradation of technology and infrastructure, and providing grants and soft lending for compliance of international standards;
- take initiatives for establishing among the SAARC countries a comprehensive data bank for sharing of information regarding new technologies, markets, best practices and trade/investment opportunities;
- take steps for improving product quality and value addition through enhancement of job quality; and
- improve industrial relations through regular social dialogue and improve the responsiveness of the industry to labour standards and trade ethics.

The employers recognized the important role of the workers' organizations in the social dialogue, particularly from the standpoint of fostering the work culture and attitude for improvement in the product quality and value addition. It was believed that harmonious industrial relations environment across the industry would contribute to furthering the job quality and productivity. The employers recommended that the governments need to:

- take appropriate macro economic measures for creating enabling and conducive environment;
- take steps to considerably improve the infrastructure and logistic support required for the industry to be able to improve its competitiveness, particularly in its response and delivery capabilities;
- reduce procedural requirements, eliminate bottlenecks and restrictive hurdles in importing required inputs, operating the plants and exporting the finished products; and
- collectively strive for establishing a common system of currency and banking service network within the SAARC region.

5.2 Workers. The workers' representatives summarized the conclusions reached during the group discussions and presented the role to be played by the workers' organizations in readying the garments industry in facing the post-MFA environment of globalization. The workers' group pointed out the common challenges of job security, job quality improvement, and compliance to labour standards and trade union rights as the competitive pressures build up on the garments industry with the removal of the quota system. In such an environment, the workers' group recommended to the ILO constituents in South Asia in developing a common strategy of:

- skills development;
- raising awareness towards the effect of globalization, specifically abolition of quota;
- including ILO's labour standards into the SAARC social character; and
- forming a coalition of SAARC trade unions.

The workers' group further recommended improving productivity and job quality by:

- enhancing mutual understanding and trust among the employers, workers and governments;
- agreeing not to compromise on job security, job quality and social security; and
- acknowledging the trade unions as important partners in improving productivity and competitiveness in the industry.

In order for implementing the above recommendations, the workers' group suggested to:

- constitute a tripartite forum at the national and regional levels; and
- educate the workers for cooperation among the tripartite constituencies.

5.3 Government. The government representative summarized the group discussion relating to the roles of the governments in facing the situation arising out of the removal of quota on the garments industry. The following recommendations were made by the meeting to the governments of the South Asian countries.

- Government needs to assume the role of a facilitator rather than acting as an arbiter.
- Government's activities need to be service oriented.
- Liberalization of rules and regulations should be carried out to simplify the procedures.

- In the conflict between the employers and the employees, the role of the government needs to be like a referee.
- In imparting education and skills training to the working population, government needs to play active role.
- Information technology (IT) needs to be promoted in creating a database and making available market information to the industry.
- Uniform quality control has to be maintained through total quality management (TQM), which needs to be taken up as a long-term campaign.
- Political commitment should be displayed in carrying out required reform in the policy and regulatory environment, so as to make it conducive for the further growth of the garments industry.
- Social recognition should be provided to the exporters and the manufacturers by way of treating them as commercially important persons (CIP) and providing awards, trophy, etc
- Logistic and infrastructure support needs to be improved for enhancing the efficiency of the industry.

6. Closing

The workshop was concluded with a closing statement by Ms. Moti Shova Shrestha, Joint Secretary, Ministry of Labour and Transport Management. Reiterating that the garment industry is one of the most important industrial sectors of the sub region in providing employment as well as generating exports earnings, she pointed out the problems relating to low productivity, poor quality of product, cumbersome and lengthy export procedures and lack of adequate fiscal and financial measures.

Impending removal of the quota system after the end of Multi-Fibre Agreement in 2004 is bound to pose a serious challenge to sustain the employment in garments industry in South Asia. To cope with the problems associated with this sector, a series of policy and administrative reforms are needed. Improvement in productivity should be undertaken not only through innovation and technology upgrading, enhancement of product and service quality and expansion of market opportunities but also through deliberate efforts in enhancing job quality and conditions of work.

The countries in the sub-region should adopt a strategy involving high level of competitiveness, high value product, product diversification, product design and diversification, backward linkages, reduction in production led-time and intra-regional corporation among the SAARC countries as.

Attention should be directed in implementing the International Labour Standards. The standards on fundamental human rights and trade union rights must be implemented without regard to short-term gains that could be had by ignoring them. Implementation of the standards is expected to enhance constructive labour-management relations promoting social dialogue to resolve conflicts.

Ms. Shrestha emphasized that the difficulties arising out of the removal of the quota system may be a blessing in disguise since the industry may emerge with new strength and vigour to

compete in the liberalized trade environment. It is expected that the discussion and conclusions of the meeting will provide the impetus towards strengthening of the resolve for improving the productivity and competitiveness in the industry through improvement in job quality.

ANNEX

Sub-Regional Meeting on Competitiveness, Productivity and Job Quality in Garments Industry in South Asia

Kathmandu, 25-26 September 2001

PROGRAMME

Tuesday, 25 September 2001

0830-0915 hrs. **Registration**

Closed Door Meeting of Workers and Employers

0915-1015 hrs. **Opening**

Welcome Remarks by Director ILO Kathmandu

(Ms. Leyla Tegmo-Reddy)

Address by SAARC Secretary General (Mr. Nihal Rodrigo) delivered by
Mr. Amit Das Gupta

Address by Employers' Representative

(Mr. Suraj Vaidya, VP FNCCI)

Address by Workers' Representative

(Mr. Jitendra Lall Karna, DECONT)

Inaugural address by the Chief Guest

(Mr. Palten Gurung, Minister for Labour and Transport Management)

1015-1030

Tea Break

1030-1130

Technical Presentations I

(Mr. Gopal Joshi, Senior Enterprise Specialist, ILO-SAAT)

Managing Social Issues - Challenges and Opportunities

Overview of garments industry in South Asia

Discussion

1130-1300

Country Presentations I (to be continued after lunch)

Bangladesh

(Dr. Nasreen Khundker)

India

(Dr. M. Vijayabasker)

1300-1400

Lunch

1400-1530

Country Presentations I (continued)

Nepal

(Dr. Dinesh Pant)

Panel Discussion

1530-1700

Group Discussion I

Wednesday, 26 September 2001

0900-1100

Technical Presentations III

(Mr. Gopal Joshi, Senior Enterprise Specialist, ILO-SAAT)

International Perspective of garments industry
Productivity and job quality
Discussion

1100-1300

Country Presentations II

Pakistan

(Mr. Nabeel Goheer on behalf of Mr. Asir Manjur, SMEDA)

Sri Lanka

(Dr. Saman Kelegama and Mr. Mr. Roshen Epaarachchi, IPS)

Panel Discussion

1300-1400

Lunch

1400-1600

Group Discussion II

1600-1700

Closing

Conclusions by government, workers and employers

Closing Remarks by Joint Secretary (Ms. Moti Shova Shrestha)

**Sub-regional Meeting on Competitiveness, Productivity
and Job Quality in Garments Industry in South Asia**

Kathmandu, 25-26 September, 2001

List of Participants:

Bangladesh

1. Mr. Pradip Kumar Kundu
Additional Secretary (cc)
Social Sector Development (SSD)
Bangladesh Garment Manufacturer and
Exporters Association (BGMEA)
Dhaka
2. Mr. Shahadat Hossain Chowdhury
Chairman
Standing Committee on Labour Arbitration
Bangladesh Garment Manufacturer and
Exporters Association (BGMEA)
Dhaka
3. Mr. Nasiruddin Ahmed
Deputy Secretary, Ministry of Commerce
Dhaka
4. Mr. Mohammad Abu Taher
Joint Secretary
Ministry of Labour and Employment
Government of the People's Republic of
Bangladesh
Dhaka
5. Mr. Louis A. Costa
President
President BFTUC Dhaka city committee
General Secretary, BAKSOP and adviser
Federation of Garment Workers
Care of: Bangladesh Free Trade Union
Congress (BFTUC)
Dhaka

India

6. Mr. Atul Chaturvedi
Joint Secretary (Exports)
Ministry of Textiles, Government of India
New Delhi
7. Mr. Anil P. Anand (Council of Indian
Employers)
Joint Managing Director
M/s Harjas Apparel Pvt. Ltd.
A-84, Okhla Industrial Area, Phase II
New Delhi - 110 020
8. Ms. Vinita Kumar
Director
Ministry of Labour, Government of India
New Delhi
9. Mr. Ranjit Singh
Senior Vice President
All India Garments Manufacturers'
Association
New Delhi

Nepal

10. Ms. Moti Shova Shrestha
Joint Secretary
Ministry of Labour & Transport
Management
11. Mr. Himal Thapa
Section Officer
Ministry of Industry, Commerce & Supplies
12. Mr. Narayan Bajaj
Treasurer
13. Mr. Shishir Kumar Jha
Executive Member
Nepal Trade Union Congress (NTUC)
14. Mr. Suraj Vaidya
Vice President, FNCCI
15. Mr. Megh Nath Neupane
Executive Director, FNCCI

Pakistan

16. Mr. Muhammad Bashir Shakir
Joint Secretary
All Pakistan Federation of Trade Unions
(APFTU)
Bakhtiar Labour Hall,
28, Nisbet Road, Lahore
17. Mr. Majyd Aziz
President, MHG Group of Companies
Employers' Federation of Pakistan

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18. Mr. Mukhtar Simon
Deputy Social Security Adviser
Ministry of Labour, Manpower and
Overseas Pakistanis
Government of Pakistan
Islamabad

Sri Lanka

19. Mr. H. Wijeratne
Deputy Commissioner
Ministry of Labour
20. Mr. Roy Jayasinghe
Additional Secretary
Ministry of Trade and Industrial
Development

21. Mr. S. Amarasekara
General Manager
Polytex Garments Ltd.
22. Mr. R.L.P. Peiris
Deputy Director General
Employers' Federation of Ceylon (EFC)
23. Mr. Anton Marcus
General Secretary
Free Trade Zone Workers Union (FTZWU)

Resource Persons

24. Dr. Nasreen Khundker
Dhaka, Bangladesh
25. Mr. M. Vijayabaskar
Bangalore, India
26. Dr. Dinesh Pant
Nepal Administrative Staff College
Lalitpur, Nepal

27. Mr. Nabeel Goheer
Small and Medium Enterprise Development
Authority (SMEDA)
Government of Pakistan
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28. Dr. Saman Kelegama
Director, Institute of Policy Studies
Colombo, Sri Lanka
29. Mr. Roshen Epaarachchi
Research Officer
Institute of Policy Studies
Colombo, Sri Lanka

Observers

30. Mr. Jitendra Lall Karna
General Secretary
Garment Workers' Union (DECONT)
Nepal

31. Mr. Hair Duty Joshi
General Federation of Nepalese Trade
Unions (GEFONT)
Nepal