

Key pointers for an ambitious EU action plan against deforestation

For the EU to substantially reduce the contribution to global deforestation and to play a leading role in achieving the Paris climate targets and the Sustainable Development Goals, ambitious intervention measures are needed. These measures need to discourage unsustainable practices and create a level playing field for fair and sustainable production, trade and consumption of commodities. This can only be achieved through an ambitious **EU Action Plan against deforestation** which combines voluntary with binding measures, through a smart mix of robust **demand**, **supply** and **finance** measures, whilst seeking to internalise the real value of forests and ecosystem services.

An EU Deforestation Action Plan is a unique opportunity for strong, legislative and other measures to help combat deforestation in the EU's importation, production and consumption of agrocommodities.



Demand side measures

- Binding legislative measures are needed for all products imported, produced, traded and consumed in the EU, and for the financial sector.
- Minimum criteria must cover the legality of production, and also include deforestation-free and other sustainability aspects including social criteria.
- Robust and transparent assurance mechanisms are required to ensure that minimum legislative requirements are complied with in the field, including mandatory due diligence (supported by Voluntary Partnership Agreements (VPAs)) and mandatory sustainability criteria controlled by robust sustainability standards (improving on the EU-Renewable Energy Directive).
- Measures to speed up the transition towards a circular economy are key, with consumption patterns shifting towards more resource-efficient and sustainable forms.



Supply side measures

- Measures to work with and support producer countries should enhance governance and enforcement, and the capacity of producers.
- Measures must prioritize the inclusion of smallholders, acknowledging the specific features of this group.
- Development of bilateral partnerships and area-based, inclusive jurisdictional approaches are needed with robust sustainability criteria, as mechanisms to provide dedicated support in producer countries.



Finance measures

- Measures to transform current financial policies and market mechanisms should help the move towards a system where the real economic value of sustainable production, forests and ecosystem services are internalized in pricing and decision making.
- Development of legal proposals which stimulate, redirect and mobilize green investments in deforestation-free initiatives is required, as they have high relevance for mitigating climate change.
- Approval of current legal proposals is needed to stimulate and accelerate transparency on the Environmental, Social and corporate Governance (ESG+) criteria and to make their application mandatory for financial institutions.



Introduction

This policy paper aims to support European policy makers in considering an ambitious package of effective interventions regarding the EU Action Plan against deforestation, while also ensuring smallholder inclusiveness, building on the EU study 'Feasibility of options to step up EU action against deforestation'¹.

The challenge of curbing deforestation while meeting future demand

Global loss of tree cover reached a record 29.7 million hectares in 2016, 51% higher than the previous year (WRI, 2016). In the tropics, deforestation has been rising steadily in recent years, with a loss of 15.8 million hectares in 2017 alone (WRI, 2017).

Box 1. Key drivers of forest loss are the expansion of the agricultural frontier due to a growing demand in forest-risk commodities, especially palm oil, soya, timber, pulp and paper, and beef (FAO, 2018a). A growing world population and changing consumption patterns are further driving global food demand with an estimated 50% increased from now to 2050 (FAO, 2018b). Also, the current market economy puts even more pressure on forests, as commodity prices exclude environmental and social costs, and forests remain undervalued.

The EU is a large importer of commodities associated with deforestation², including 60% of global cacao imports (Nketiah et al., 2018) and 12-15% of global palm oil

production (FERN, 2017). The EU can thus be considered as an important contributor to climate change³, and they face an enormous challenge to meet future demands from available land while halting deforestation and mitigating climate change.

Table 1: Forest-risk commodities show similarities but also differences, e.g. in production areas and export destinations (COWI, 2018), defining the context and the role that the EU can play.

	Main producing countries	Main export markets
Palm Oil	Malaysia and Indonesia; also Cameroon, Colombia, Nigeria and Thailand are fast growing.	The largest consumers of palm oil are India, Indonesia, the EU and China. The largest importers are Asia (leading), Europe (second).
Soy	Brazil, Argentina, US and Paraguay	The EU used 40 million tonnes of soy in 2017, or 12 % of global production, with more than 90 % imported from outside the EU, mainly from Brazil, Argentina, US, Paraguay (Profundo, 2019) ⁴ .
Cacao	Côte d'Ivoire and Ghana	The EU is the largest importer of cacao in the world (Tropenbos International et al., 2018), Malaysia and USA being other large importers.
Cattle	USA, Brazil and the EU	334,000 tonnes of beef were imported into the EU in 2017, mainly from Brazil (42%), followed by Uruguay and Argentina (FERN, 2018b)

¹ The EU study frames possible EU initiatives to tackle deforestation and its root causes and drivers, into supply measures, demand measures and finance measures (COWI, 2018). This policy paper uses the same categorization.

² The EU imported 36% of all crop and livestock products associated with deforestation, traded between regions (1990-2008) (VITO, 2013).

³ An estimated 18% of global GHG emissions (and 24% of CO₂ emissions) are attributable to land use change and forestry (LUCF). The largest source is driven by conversion of forest to agricultural land (WRI, 2005).

⁴ EU imports of soy shifted in 2018 towards the USA, due to trade conflicts with China. It is unknown if this will remain the case. See also the EU Crops market observatory on soya trade (EC, 2019).

Progress so far: too limited to catalyze change

Government initiatives, building momentum

Governments in both consumer and producer countries have stated their intentions to halt deforestation in major commodity supply chains. This is in part reflected in many Nationally Determined Contributions (NDCs) submitted under the Paris Agreement on climate change, that include targets for reducing deforestation (COWI, 2018). For example, Colombia aims to set an exemplary role and achieve zero net deforestation by 2020, Brazil pledged to eliminate illegal deforestation by 2030, and more than 45 tropical countries are developing jurisdictional programmes to reduce emissions from deforestation and forest degradation (REDD+) (Sembres, 2017). Within Europe, there are a range of initiatives that address some drivers of deforestation, directly or indirectly⁵.

Box 2. Moving from legally compliant to deforestation-free sourcing

An analysis of existing laws (IUCN-NL, 2019) on forest protection in Paraguay, Brazil and Argentina, their implementation and level of compliance, show that forest laws provide some legal protection. However, complying with legal deforestation alone instead of ‘deforestation-free’ means that 82-94 million hectares can still be legally deforested in Brazil, 10.5 million hectares in Argentina, and 4-7 million in the Paraguayan Chaco. This also assumes 100% legal compliance, which is currently far from the case. This indicates the importance of supporting deforestation-free sourcing of commodities, going beyond only legally compliant sourcing.

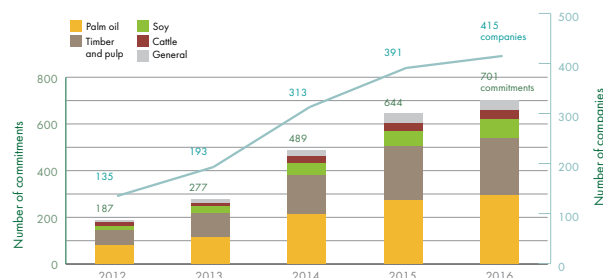
Illegal logging and the risk of violation of forest laws remains, however, alarmingly high⁶ (Kleinschmit, 2016), especially where commercial agriculture is driving significant forest loss (NYDF, 2018). In 2000-2012, illegal conversion of forests to commercial agriculture contributed 49% to total tropical deforestation (Lawson, 2014), and countries with poor governance tend to have higher annual forest loss than countries with good governance (NYDF, 2018). But even with full compliance of national forest laws, deforestation is still legally possible as few jurisdictions fully prohibit deforestation (Garrett, 2019; IUCN-NL, 2019).

Despite growing private sector commitments, progress is too slow

A growing number of companies have adopted commitments to eliminate deforestation from their supply chains (COWI, 2018). But progress is too slow (Mulder, 2017) with large differences between different commodities (see

Figure 1), and the current market economy continues to drive expansion of agricultural commodities as low-price products. Addressing deforestation associated with commodities must also consider the dynamics of deforestation in the broader multisectoral landscape that drives land use change decisions and underlying causes (Camargo et al., 2017).

Figure 1: Trends in company commitments



Source: Climate Focus, 2016

Related technical factors also limit the effectiveness of private-sector commitments, including the following:

- **Risk of leakage** due to the limited combined market share of companies in some key sourcing regions (Garrett, 2019).
- **Lack of transparency and poor traceability** in supply chains, which is a barrier to monitor corporate commitments and make them accountable (NYDF, 2018).
- **Low market shares of certified products**, as 80% of pledges rely on third party certification. Market shares for certified soy and beef are especially low (PBL, 2018; Forest-Trends, 2015), see also Table 2.
- **Failing to include participation of smallholders** in deforestation-free commitments (FAO, 2018a).

Table 2: Companies with specific forest policies based on the Forest 500 Annual Review (Rogerson, 2017)

Palm Oil	61%, and policies are more rigorous and ambitious compared to other commodities. Certified share in global market: 22% (source: PBL, 2018)
Soy	Lagging behind on palm oil and tend to be weaker in scope: 60% of policies are limited to a specific region. Certified share in global market: 2% (source: PBL, 2018)
Cattle	17%, and only 13% have committed to implement traceability systems to the slaughterhouse. Certified share in global market: insignificant (source: PBL, 2018)
Cacao	Certified share in global market: 22% (source: PBL, 2018)

5 Examples are the EU FLEGT Action Plan, including the EU Timber Regulation and Voluntary Partnership Agreements between the EU and timber-producing countries, or REDD+ activities (COWI, 2018), or the Common Agriculture Policy for within the EU.

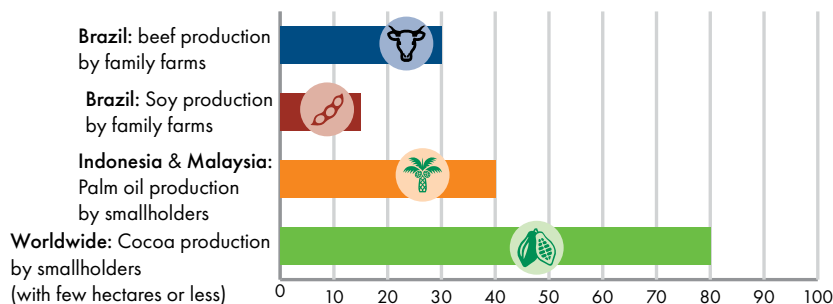
6 Countries with high levels of corruption experience the highest loss of forest (NYDF, 2018).

Smallholder inclusion is crucial

About 50% of the world's cultivated land is farmed by smallholders (PBL, 2018), and they are responsible for a large share of the production of commodities worldwide (Pasiecznik and Savenije, 2017). Deforestation also has

large impacts on rural communities, with 350 million people relying on natural forests as a safety net or for supplemental income (NYDF, 2018). Therefore, realizing a transition to deforestation-free value chains requires smallholder inclusion and support, acknowledging their dependency on forest resources.

Figure 2: Estimated contributions of small producers to the supply of forest-risk commodities (FAO, 2018b; Johnston, 2018; Brown, 2015; Vaast et al., 2016)



Conditions for smallholders to implement deforestation-free commitments

When too many barriers exist to include smallholders in the transition towards deforestation-free value chains, they will be excluded, and the opportunity is lost to promote sustainable production (FAO, 2018a), strengthen social inclusion and alleviate poverty⁷. To safeguard smallholder inclusion, long term support tailored to their needs and capacities is needed, contributing to the following:

- **Clear land tenure and user rights** (Pasiecznik and Savenije, 2017) and free, prior and informed consent of indigenous peoples and local communities.
- **An enabling environment** for smallholder entrepreneurship and cooperative development, based on appropriate incentives, including availability and access to markets⁸ and finance.
- **Local development** by creating employment based on the right for living wages, through diversification of livelihoods and creating added value through local transformation.

- **A strong inclusive governance and regulatory framework** to support and protect producers, local communities and their rights and markets.
- **Access to knowledge and viable technologies** to improve production, processing and marketing.



Smallholder inclusivity

Palm oil smallholders face risks of being excluded from the value chain (Jezeer and Pasiecznik 2019).

This is due to the complexity in implementing traceability systems involving thousands of independent smallholders, often operating in an informal economy (Pacheco and Komarudin, 2017), while also facing difficulties in shifting production practices (Johnston, 2018) and meeting multiple company requirements.



Poverty and low living wages

A sustainable cacao sector will only be achieved if farmers do not live in poverty. This can be achieved by ensuring a fair price for cacao, sustainable yield increases, on-farm diversification, and the creation of alternative income opportunities.

⁷ Related to SDG 1 (end poverty), 2 (zero hunger) and 8 (decent work and economic growth), but most SDGs are relevant in some way to all smallholders (Sustainable-Food-Lab, 2017).

⁸ The proliferation of individual company rules and requirements passed on to processors and farmers place a heavy burden on them (FAO, 2016) and increases the risk of failure (Nepstad, 2017), so alignment of individual company requirements and performance criteria is needed. Suitable mechanisms to improve traceability and sustainability safeguards for small producers should be developed (van den Ende, 2017).



What is needed?

Existing market mechanisms and policy measures to date have not proved to be enough to halt global deforestation, so these must be strengthened and scaled up by firmer policy and legislation. The EU Action Plan can play a crucial role in this, also as leverage to develop sustainable landscapes as good models for other large importers.

EU action should effectively halt deforestation and ecosystem conversion and create a level playing field for sustainable production, trade and consumption of commodities. This can only be achieved through an EU Action Plan against deforestation, which combines voluntary with binding measures, through a smart mix of robust demand, supply and finance measures, whilst seeking to internalise the real value of forests and ecosystem services.

As a global leader in developing robust policy measures and regulations, the EU should continue to support dialogue with other major producer and consumer countries, and support front-runners and partnerships through trade and market incentives, while building on existing initiatives.

Ambitious measures are essential: The Roadmap should include 'Option C' (from the feasibility study (COWI, 2018)) in the form of a robust and decisive Action Plan, including legislative measures.

Demand side measures

Changing consumption patterns

Ensuring the supply of deforestation-free and legal products is essential, but more is needed to reduce pressures on forest frontiers and improve governance. A structural change in the EU's market and consumption patterns is key, requiring a speeding up of its transition towards a circular economy, promoting locally sourced sustainable production, and a shift towards more resource-efficient consumption patterns. Options exist to reduce demand for all forest-risk commodities and the subsequent pressure on land. The EU should strongly support measures to realize such options, building on existing EU plans, e.g. the EU Action Plan for the Circular Economy, the EU Waste Legislation, and the EU protein transition policy. The EU-RED 2.0 should also phase out policy support for biofuels posing a high risk for deforestation and indirect land use change (ILUC), such as palm oil and soy.

Binding legislative measures are needed

Legislative measures are needed that set a uniform minimum standard for all products produced, imported to, traded by, and consumed in the EU, and for the financial sector. Minimum criteria must cover the legality of production, and also include deforestation-free and other sustainability, including social criteria (see Box 3).

Table 3: Options for various forest-risk commodities to reduce demand and pressure on land.

Oil Palm	<ul style="list-style-type: none"> EU-RED 2.0 to phase out high ILUC biofuels. Member states should be encouraged to use vegetable oils for food rather than for fuel to minimize risks of indirect land use change caused by additional consumption of oil for biofuels.
Soy	<ul style="list-style-type: none"> A transition to more human consumption of plant protein should be priority in the EU Protein Plan⁹, actively supported by communications and financial incentives by the EU. The EU should promote partial replacement of animal feed by waste-streams and other locally sourced, sustainable feedstock in Europe¹⁰.
Cattle	<ul style="list-style-type: none"> In addition to more and improved sustainability requirements, the EU should stimulate a better balance between human consumption of animal protein and plant protein in the EU.

Box 3. Minimum criteria

- Legality including customary tenure rights and user rights.
- Minimum environmental standards that follow and strengthen requirements proposed in the EU Renewable Energy Directive (EU-RED).
- International human right obligations.

⁹ Reducing European demand for animal protein consumption by humans and stimulating more soy and other plant protein to be directly consumed by humans can save (depending on the production model and animal) 200-300 times the required land area.

¹⁰ This stipulates the importance of internal EU deforestation-free policies and the importance of carefully introducing and monitoring incentives to avoid leakages and perverse impacts.

Lessons learnt exist from best private sector practices (see Box 4), legislative instruments¹¹, EU guidelines, Commitments, and Treaty obligations¹². They should be applied, adopted and used as guidance.

Robust assurance mechanisms are essential, building on best practices

An EU Action Plan should include robust and transparent assurance mechanisms to ensure that minimum legislative requirements are complied with in the field, while acknowledging sector- and product specific characteristics. This should explore a smart mix of measures, which could include the use of mandatory due diligence supported by bilateral partnerships, and robust certification standards supported by area-based jurisdictional approaches. For the latter, lessons can be learned from the assurance mechanism of the EU-RED model of setting mandatory sustainability criteria.

Mandatory due diligence could be used as an assurance mechanism, under the condition that good governance in the producer countries can be sufficiently assured. Due Diligence aims to identify and mitigate the risk of EU consumed commodities, or investments by EU-based financial institutions that are linked to harmful activities. To do so,

Box 4. Adopting the Accountability Framework

The Accountability Framework develops consensus on common norms, definitions and guidance for establishing, implementing and monitoring responsible supply chain commitments, which could be used as a common reference by an EU Action Plan. See: <https://accountability-framework.org>.

companies are obliged to have a Due Diligence system in place to assess, verify and, when needed, to mitigate identified risks associated with the commodity supply chain they are involved in.

Robust certification standards should be used to control minimum legislative and sustainability requirements in the field, building on best practices and lessons learnt from EU-RED (see Box 5). Smallholder inclusion should be a priority, such as through Roundtable on Sustainable Palm Oil (RSPO) smallholder criteria.

The EU should support robust standard-setting organizations in the development and uptake of their standards, and support area-based jurisdictional approaches. Halting deforestation and land conversion, smallholder inclusiveness, and facilitating traceability should be priorities.¹³



For **cocoa**, mandatory due diligence would be an appropriate assurance mechanism for commodities dealing with smallholders, supported by existing private sector initiatives. This should go hand in hand with the development of bilateral partnerships between producer countries and the EU.



For **palm oil**, the EU should source only certified palm oil (RSPO or equivalent Crude Palm Oil) combined with verified legal palm oil from smallholders, while developing jurisdictional approaches. Certification modules are being developed for smallholders, facilitating compliance with measures appropriate to their risk (Jezeer and Pasiecznik, 2019).



For **soy**, given the limited uptake of sustainability standards (see table 2; PBL, 2018), credit trade of Round Table on Responsible Soy (RTRS) or equivalent deforestation-free standards should be required as a minimum for the coming years, supporting the scaling up of responsible soy production. This should be combined with jurisdictional approaches.

Box 5. Lessons learnt from EU-RED

EU-RED went wrong when it required mandatory blending with biofuels such as vegetable oils that did not help to curb climate change. However, it is an interesting model of how to set mandatory sustainability criteria and guide quality control. EU-RED could serve as a model in how to introduce minimum legislative requirements in Europe for agrocommodities and combine these with mandatory certification as an assurance mechanism. Improvements in EU-RED that could be applied to all commodities should include the following:

- To avoid leakage, extend the scope of minimum sustainability requirements to all biomass end-uses.
- Develop stronger sustainability criteria to ensure commodities are deforestation-free.
- Allow only robust quality standards for control, including a strong level of assurance¹³. The latter serves the control of legality and sustainability, and builds on instruments that resonate with industry.
- In addition, area-based jurisdictional approaches should be supported for all commodities.

¹¹ e.g. the EU Timber Regulation, EU Illegal Fisheries Regulation, EU Conflict Mineral Regulation or EU Renewable Energy Directive.

¹² e.g. the International Bill of Human Rights, the UN Declaration on the Rights of Indigenous Peoples, the FAO Voluntary Guidelines on the Responsible Governance of Tenure, the UN Guiding Principles on Business and Human Rights, the EU biodiversity targets and related global Aichi targets, the Council Conclusions on Indigenous Peoples (2017), or the EU Guidelines on Human Rights Defenders.

¹³ Multi-stakeholder commodity initiatives such as those of the Roundtables and other 'best in class' standards can be used to create minimum criteria. See also 'Betting on best quality' (IUCN-NL, 2013), and www.iucn.nl for updated information on palm oil and soy benchmarks.



Supply side measures

The EU should work with and support producer countries to enhance governance, enforcement and build producers' capacities, which will need political engagements from both producer and consumer sides. Measures focusing on good governance and sectoral reforms require deliberate multi-stakeholder dialogues. Preferably, such processes are organized through the development of bilateral partnerships or area-based jurisdictional approaches with robust sustainability criteria.

Support to smallholders

To ensure inclusiveness, the EU should prioritize support measures to smallholders and make funding available. There should be targeted support to secure land and user rights and improve production practices, market access, the organizational capacity of smallholders, diversification of livelihoods, and the development of alternative business models.

Box 6. Good forest governance enables the implementation of, and compliance with, laws and policies that address deforestation and participatory decision-making processes (NYDF, 2018). When empowered and equipped, governments can coordinate and align jurisdictional activities and commitments, and ensure that production changes result in positive social and environmental impacts for all stakeholders (FAO, 2018a)

Box 7. Good practices in Brazil

Brazil has demonstrated that it is possible to slow deforestation in the Amazon through a combination of command-and-control measures. It has also revealed the fragility of this approach if it is not accompanied by positive incentives to farmers who make the transition to low-or no-deforestation production systems. This included help in mapping and entitlement of community or smallholder lands, investments in high quality production systems, long term purchase agreements, and better contractual terms (Nepstad, 2017).

Bilateral partnerships

The EU can provide support to producer countries through bilateral agreements, building on lessons learnt from VPAs under the EU-FLEGT mechanism. A bilateral partnership envisages the EU negotiating bilateral or multilateral agreements with the main cacao producing countries. Support could be provided through packages of supply-side and demand-side measures across different pillars. This can include development support, promoting trade, investment and finance, support to private sector initiatives, technical support to small producers, and better implementation of existing legislation. Important is that this includes measures

and incentives to improve land use and supply chain governance (van Orshoven, 2017).



For cacao, it is important that a bilateral partnership addresses raising production standards, smallholder inclusion, and ensure a minimum living wage.

Box 8. Building blocks of FLEGT-VPA relevant for reform of the cacao sector

A study (Tropenbos International et al, 2018) highlighted lessons learnt from the FLEGT-VPA process in Ghana that could be used to further strengthen existing cacao initiatives and help conserve forest landscapes. FLEGT-VPA has helped to establish a national traceability system and create clarity in the legality and policy systems, as well as deliberate a real multi-stakeholder dialogue leading to concrete reform proposals.

Support area-based jurisdictional approaches for all commodities

The EU should support tailor-made jurisdictional approaches for all commodities and geographies, with clear and time-bound steps towards minimum criteria for all producers. Inclusion of smallholders for whom compliance is challenging should be a priority, and which especially concerns cacao and palm oil producing smallholders. Jurisdictional approaches can achieve scale and impact.



For palm oil, jurisdictional approaches can create a level playing field for trade to all palm oil consuming countries, including India and China, amongst others.



For soy, jurisdictional approaches can scale up responsible production across deforestation risk countries such as Paraguay, Argentina, Brazil, but also including Europe.



Finance measures

Banks and financial institutions as significant investors in large scale agricultural and forestry projects (COWI, 2018) can have a large influence on reducing deforestation. But transparency in investments and loans in high-risk deforestation commodities¹⁴ remains insufficient¹⁵, though awareness in the financial sector is growing (PBL, 2018). At the same time, there is limited funding in many developing countries to invest in halting or reducing deforestation (COWI, 2018). It is therefore essential to modify financial market mechanisms towards systems where the real value of sustainable production, forests and ecosystem services are internalized in pricing and decision making.

Supporting and mobilizing green investments

The EU is stepping up legislative efforts under the EU Action Plan on Financing Sustainable Growth¹⁶. It should develop further legal proposals to stimulate, redirect and mobilize green investments, not just in climate action, but also in deforestation-free landscape initiatives. This will require the development of innovative finance mechanisms and incentive frameworks. Funding should focus on support to bilateral partnerships and area-based jurisdictional approaches that prioritize smallholder inclusiveness and facilitate their access to finance, long term investment and insurance.



The need to value forests

Forests as a solution for development problems or as a service for providing water or climate stabilization, is largely undervalued in the current market economy. Internalizing environmental, social and governance externalities in policies and prices are essential, so countries and local communities can generate income from forests to finance long term development and conservation.

Requiring transparency and reducing risk

The EU should speed up approval of the current legal proposal to stimulate and accelerate transparency on ESG+ criteria of financial institutions, and move forward with legislation to make application mandatory. ESG+ criteria must be aligned with the minimum legislative requirements for deforestation-free products, and build further on practical experiences already gained by financial institutions¹⁷, e.g. the Sustainable Banking Regulation in Brazil¹⁸.

An EU Deforestation Action Plan is a unique opportunity for strong, legislative and other measures to help combat deforestation in the EU's importation, production and consumption of agrocommodities.

¹⁴ Only fragmented data are available, which suggest that amounts are significant. For example, 50 large agribusinesses with forest-risk sector operations in Southeast Asia received at least US\$ 38 billion in corporate loans and underwriting of new share and bond issues in 2010-2015 (Picken, 2017)

¹⁵ Only 30% of investors and lenders assessed by Forest 500 have specific lending or investment policies in palm oil or timber, even fewer for companies in the cattle or soy supply chains (9% and 11% respectively) (Rogerson, 2017)

¹⁶ See: https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

¹⁷ The Natural Capital Declaration and the Banking Environment Initiative aim to raise awareness on deforestation risks within the financial sector (PBL, 2018), while the Soft Commodities Compact, adopted by 12 banks, helps Consumer Goods Forum companies work towards implementing their commitments (McCoy, 2017)

¹⁸ In Brazil, sustainable banking regulation began in 2008 with resolution 3545, making the granting of loans to agricultural activities in the Amazon conditional on compliance with legal and environmental requirements. It was estimated that the deforestation rate was almost halved the following year as a direct result of this initiative (Assunção, 2013)

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