



The Successfulness of the Reasons for Malaysia's Energy Initiatives

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ABSTRACT

From the standpoint of Neoliberal Institutionalism, this study explores Malaysia's participation in activities that make energy the topic and/or object of foreign policies, whether through bilateral or multilateral engagements. This research, which aims to evaluate the relevance of energy in Malaysia's economy and diplomacy and to explain Malaysia's reason for its involvement in these cooperations, is necessary because of Malaysia's growing involvement in the global energy market. Information for this study was gathered from a variety of government sources, interviews, published statistical data, and previous studies. The study demonstrates how vital energy is to Malaysia's economy. The Lao PDR-Thailand-Malaysia-Singapore Power Integration Project initiative, in which Malaysia is participating, is evidence of the viability of multilateral power commerce in the area. The Peninsula Gas Utilisation pipeline in Peninsular Malaysia and the Four-Fuel Diversification Policy 1981 (4FDP 1981), which increases natural gas utilisation, are related to Malaysia's participation in the Malaysia-Thailand Joint Development Area. Malaysia would want to think about streamlining its energy administration.

Keywords: Energy Diplomacy, Malaysia-Thailand Joint Development Area, ASEAN Power Grid, Regional Cooperation

JEL Classifications: O13, P48

1. INTRODUCTION

Since 1990, Malaysia has managed to secure and establish several forms of joint development areas with neighbouring countries to address and manage the issues of resource exploitation and maritime delimitation disputes between them. An agreement was signed with Thailand in May 1990, thus formally establishing the Malaysia-Thailand Joint Development Areas (MT-JDA) (Islam et al., 2022). In June 1992, another agreement between Malaysia and Vietnam provided the outline for a Commercial Arrangement Area (PM3-CAA). In 2015, an agreement outlining a Commercial Arrangement Area (CAA) was signed with Brunei after several years of negotiations, and this culminated in the signing of the Unitisation Framework Agreement signed in November 2017 (Bernama, 2017b; Severino, 2010).

The focuses on the capabilities of the states, as in the capacity (to possess and influence other countries), perception (of its leaders and the role of the states in the international hierarchy), and membership in international organizations. An alternative definition for small-states characterises them as those demonstrating "limited national capabilities and the way by which it uses such capabilities in achieving the objectives of its foreign politics" and in which its own leader and other states' leaders share the mutual perception of that small state within the international system (Galal, 2020). Other scholars attempting to define small-states categorize them as those treated as objects, rather than subject of international relations (Neumann and Gstöhl, 2004).

Despite various debates on the definition and conceptualization of the term "small states" among scholars, for the purpose of this

research, the terms “small,” “weak” and “insecure” states may be interchangeably used. Furthermore, the use of “small states” will refer to the concept of limited power or capabilities rather than size (Elman, 1995). Therefore, whereas by some of the previously discussed definitions, Malaysia may not be categorized as a small state, owing to the size of its population, area and economy, in terms of powers and capabilities, it does display such traits (of limited power and capabilities) in comparison to other economic and political giants in the region, such as China or Japan.

The goal of this research is to study the conduct of Malaysia's regional energy diplomacy experiences and practices. Conducted from the perspective of neoliberal institutionalism, this research includes an examination of the strategies involved during the bilateral and multilateral negotiation stages undertaken through various regional institutions and the resulting policies, as well as the implications of said policies. It is essential for this study to be undertaken as Malaysia has been a net oil importer since 2014, thus making external dependencies and market stability of great importance for national energy security (Kok, 2015). This study proposes that regional energy diplomacy is one of the means available to Malaysia to attain energy security through negotiations and interdependence.

2. LITERATURE REVIEW

Within the international system, it is often said that great powers are “subjects of politics,” while small states its “object.” This sentiment clearly encapsulates the imbalance of power and influence between states. Although most member states of the United Nations may be categorized as small states, the study of politics and international relations in general have been focusing more on the so-called great states, partly due to the lack of consensus on the definition of “small-states” and the prevailing sentiment that great powers are in charge of the international system and may therefore shape the system accordingly (and the small states adapting to these changes) (Neumann and Gstöhl, 2004).

Recognizing the importance of small states studies, Neumann and Gstöhl also discuss the development of this subfield within the study of international relations. The development of post-war institutions and the process of decolonization fuelled the need to understand the behaviour of small states as they attempt to mitigate the effects of structural constraints and maintain their sovereignty (Dharfizi, 2018). Therefore, most early works written on small states focus on their inherent weakness and mechanisms adopted to cope with the resulting shortcomings (Neumann and Gstöhl, 2004). These mechanisms include the utilization of international organizations to further their foreign policy goals as international organization provide a more level playing field (Scheldrup, 2014). Whereas this power asymmetry is not as apparent within the context of ASEAN, the establishment of joint development areas is dependent on regional institutions established bilaterally between member states, thus providing a more equal platform for negotiation. For region-wide energy cooperation however, ASEAN, or more specifically the agencies of ASEAN Centre for Energy (ACE), Head of ASEAN Power Utilities/Authorities (HAPUA) and ASEAN Council on Petroleum (ASCOPE) play the

intermediary role for coordinating regional energy cooperation, and the establishment of the ASEAN Power Grid and the ASEAN Gas Pipeline.

A multi-level analysis on Luxembourg's foreign policy in the 1990's was conducted by Hey (2002) which unravels how this state utilizes its small size to its advantage. On a systemic level, its active participation in regional politics is considered harmless due to its size, whereas domestically the small population allows for an easier development of national consensus between the elites and the public. On an individual level, Luxembourg benefits from the capable and skilled leadership of its prime minister (Hey, 2002). Scheldrup also argued for the significance of domestic influence in determining a small state's foreign policy behaviour. Although the volatility of the state's external environment may still influence foreign policy behaviour, the stability of the internal political situation is paramount, as a threatened government is not as likely to pursue an active foreign policy (Scheldrup, 2014). This is not necessarily true for Malaysia as the general public normally has limited influence on the shaping of foreign policy, which often takes place behind closed door away from the media and public attention. However, one particular sphere of foreign policy in which the Malaysian general populace may hold some influence is religion. It is directly related to the adopted identity of Malaysia as a Muslim-majority nation, and one of the founding members of the Organization of Islamic Conference (OIC) which in turn shapes its anti-Israel, and pro-Palestinian agenda (Lahiri, 2003).

The idea of employing energy as a foreign policy instrument is not exactly new. Rather, it has been closely linked with foreign policy and military action. For example, the Abyssinia Crisis resulted in an oil embargo imposed by the League of Nations upon Italy after the country invaded Abyssinia in 1935 (Strang, 2008). On the other side of the globe, Imperial Japan's military adventurism in mainland China was used by the United States as a justification for an oil embargo in August 1941. This eventually led to the attack on Pearl Harbor in December 1941 (Nakagawa, 2010). Even during the war years, Allied Powers imposed oil sanctions upon Spain to limit its support for the Axis, and the Anglo-Soviet invasion of Iran took place in 1941 as an attempt to prevent oil access by the Third Reich (Caruana and Rockoff, 2006).

3. METHODOLOGY

3.1. Research Design

Designing and choosing the appropriate data collection and analysis method are dependent on the outlined research objectives and research questions, both of which are framed in accordance to the need of the problem statement. These include both the primary data and secondary data, of qualitative and quantitative nature. As these questions serve different functions in the research and seek different forms of data, all relevant methods for data collection and analysis in this section have been deliberated according to their respective research questions and objectives. For qualitative research design, the data are collected through interviews, observation and/or document analysis, although what interview questions are asked, what form of observation and what

documents are deemed relevant are subject to the disciplinary theoretical framework of the study (Merriam and Tisdell, 2016).

3.2. Data Collection - Source Selection and Processing

In a common policy research, almost all sources of information generally consist of two types, namely documentations or records and people. The former includes both physical and digital publications such as books and journal articles, but also websites and statistical databases, government reports, archival materials, newspapers and magazines among other things whereas the latter includes anyone whether a single individual or groups of people who are consulted in person (Bardach, 2012). This realisation sets forth the design of this research as far as the data collection stage is concerned.

In absence of access to information from primary sources, this research also utilizes data and other findings from selected secondary sources. These include prior publications by other scholars on the topic, particularly relating to the general theme of energy diplomacy, as well as other research with a more limited scope such as those pertaining to maritime delimitation disputes involving Malaysia or the establishment of other forms of joint development areas by other countries. Additionally, reports and statistical data published by a reputable and relevant third party such as the International Group of Liquefied Natural Gas Importer (GIIGNL) or the United Nations COMTRADE Database are useful in obtaining trade data involving energy commodities, their volume, value, trade direction and in certain instances, the signing of new supply contracts and the length of said supply contracts (GIIGNL-International Group of LNG Importers, 2013). Similarly, a database compiled by other scholars on United Nations General Assembly (UNGA) Voting Data was also utilised in this research as one of the indicators for foreign policy orientations (which plays an important role in international relations) or compatibility with its other trading partners, at least on global, multilateral issues (Bailey et al., 2015). Essentially, the following Table 1 outlines the examples of sources involved and methods utilised in answering the relevant research question.

As shown in Table 1, the documents are both derived from primary and secondary sources, whereas interviews are exclusively in the domain of primary sources. As there are no records of other interviews in prior research or publications done by other authors,

Table 1: Selected examples of primary and secondary sources utilised

Research question	Primary sources	Secondary sources
What are the driving factors behind Malaysia's decision to engage in regional energy cooperations?	<ul style="list-style-type: none"> • Parliamentary Hansard • MTJA Commemoration Book • MoU between Malaysia and Thailand • Agreement between Malaysia and Thailand • ASEAN MoU on APG • Interview with MTJA • Interviews with MESTECC • Interview with MEA 	<ul style="list-style-type: none"> • Newspaper articles • Journal articles • Books

none are listed. On the other hand, digital sources such as online and offline statistical database from reputable and authoritative sources are present as both primary and secondary sources, which not only serve as sources for information verification and triangulation, but also sources of additional information.

4. RESULTS AND DISCUSSION

4.1. Malaysia-Thailand Bilateral Relations

In understanding Malaysia's utilisation of energy diplomacy in its involvement with Thailand in the Joint Development Area, it is essential to have an understanding of the diplomatic relations between Malaysia and Thailand, and Malaysia's foreign policy towards its northern neighbour. Unlike Malaysia's relationship with Indonesia and Singapore, which are laden with the political baggage of *Konfrontasi* in the 1960s and the separation of Singapore from Malaysia in 1965, Malaysia's relationship with Thailand is relatively benign. Rather, prior to the formation of Malaysia, the Malay states already had prior relations with Thailand, formerly known as the Kingdom of Siam since the 14th century. In 1909, the Anglo-Siam Treaty established the modern-day border between Malaysia and Thailand, in which the Siamese government transferred "the States of Kelantan, Tringganu (sic), Kedah, Perlis and adjacent islands" to the British (Anglo-Siamese Treaty of 1909, 1909). This separated the four Muslim-majority provinces of Yala, Pattani, Narathiwat and Satun in South Thailand from their brethren who were then administered by the British as part of British Malaya. Consequently, the Pattani United Liberation Organization (PULO) was established in 1934, aiming at creating a separate state through guerrilla warfare. During the Second World War, Imperial Japan returned the four northern Malay states to Thailand, although the arrangement was reversed upon the end of the war (Ganesan, 2001).

Upon the independence of the Federation of Malaya in 1957, and the subsequent formation of Malaysia in 1963, following the recall of Malaysia's ambassadors to Indonesia and the Philippines, and the beginning *Konfrontasi* period with Indonesia, Thailand played the intermediary role of looking after Malaysia's interest in Indonesia (Dharfizi et al., 2020; Weiss, 2010). Furthermore, both Thailand and Malaysia had a convergent threat perception in the forms of the Communist Party of Thailand (CPT) and Communist Party of Malaya (CPM), both of which shared a common sanctuary in Thailand's southern province of Yala, close to the Malaysia-Thailand border. On the regional level, Thailand was perceived as the regional bulwark against the communism threat, particularly from Vietnam and its occupation of Cambodia (Ganesan, 2010). In essence, the overarching theme which defined the Malaysia-Thailand relations during this period was one of shared security concerns. However, despite the end of the communist threat in late 1980s, the separatist threat remains for Thailand, to such an extent that in 1998 Thailand Prime Minister Chuan Leekpai accused Malaysia of supporting the guerrillas, an allegation denied by Kuala Lumpur (Ganesan, 2001).

On the multilateral front, foreign policy compatibility between Malaysia and Thailand has been fluctuating since the beginning of the 21st century. Between 1979 and 2017, Thailand casted 3,939

votes on UNGA resolutions, which 3,694 or 92.535% of them are showed similar voting behaviours with the way Malaysia casted its votes. Although the percentage of UNGA votes in agreement between 1979 and 1999 were in the higher 90s, topping at 97.727% in 1988 and 1997, in 2005, the UNGA voting pattern between the two countries recorded its lowest level on record, at 82.828%. For that year, of the 99 UNGA votes casted by both Malaysia and Thailand, only 82 of them showed similar voting preferences in Figure 1. This change of voting behaviour may be reflective of Thailand's shifting foreign policy orientation from maritime ASEAN member states during the Cold War towards more mainland or continental ASEAN member in a post-Cold War world (Ganesan, 2001).

Despite the occasional tension on the diplomatic front between Malaysia and Thailand, this does not appear to be affecting the

trade relations between the two nations. As seen in Figure 2, with several minimal exceptions, Malaysia's import from Thailand and export to Thailand are rather balanced at approximately 40-50% throughout the period. From the total trade value of USD 1.294 billion in 1989, the bilateral trade has continued to balloon and eventually peaked at USD 24.922 billion in 2013. In 1998 and 2009, the trade value dipped due to the regional and global economic crisis in the year prior. The shooting incident involving the RMN in 1995 and the reluctance of Malaysian government to extradite 131 Thai citizens who were allegedly involved in the Southern Thailand separatist movement and illegally crossed into Kelantan for asylum appear to have had no effect on the trade between Malaysia and Thailand (Rahman, 2013). The incidents involving the Tak Bai and Krue Se Mosque in 2004 also have no effects to the overall bilateral trade value,

Figure 1: Malaysia-Thailand UNGA voting pattern compared (Voeten et al., 2009)

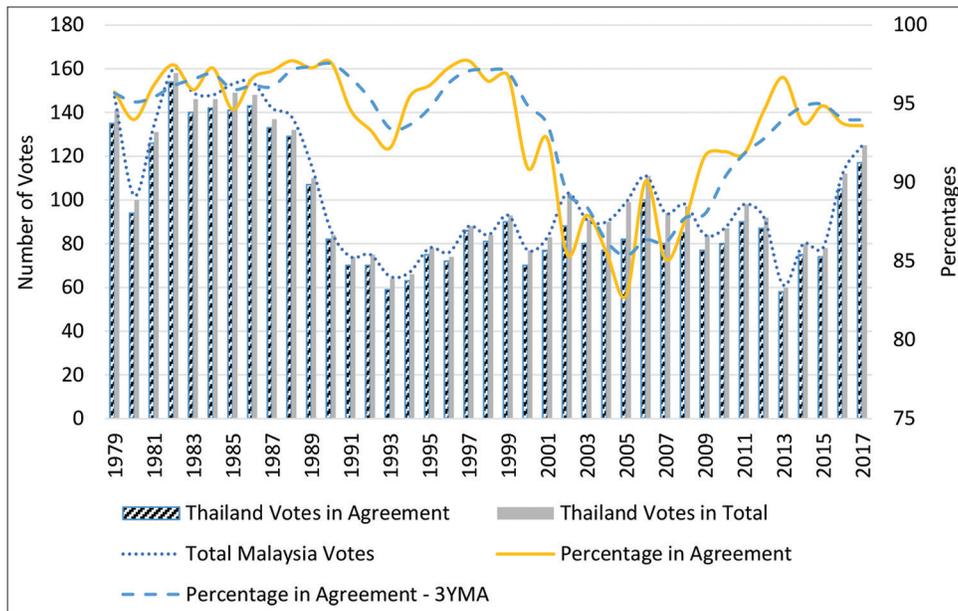
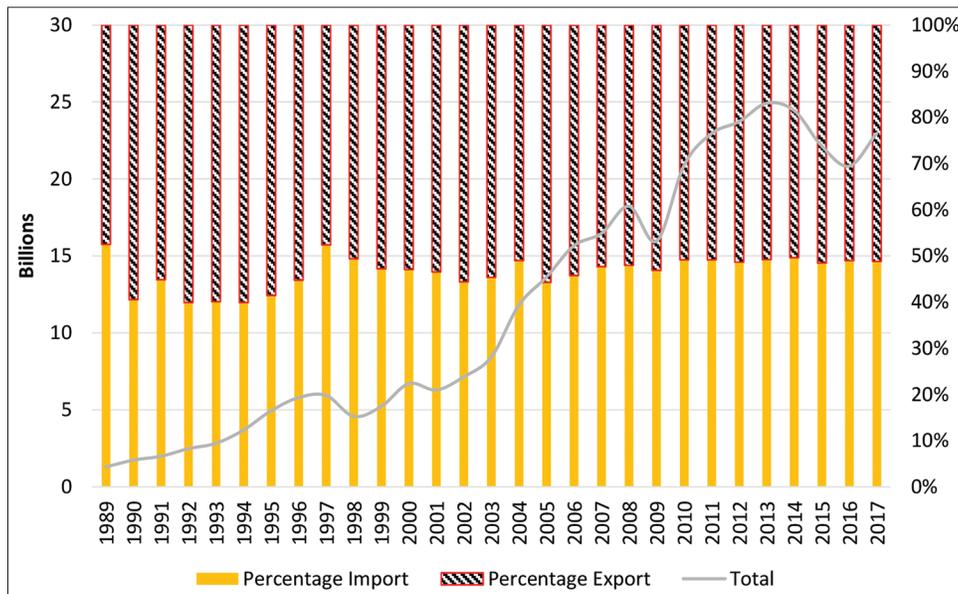


Figure 2: Malaysia-Thailand trade value (USD) (1989-2017) (United Nations Comtrade Database, 2019h)



and subsequently the diplomatic relations between Malaysia and Thailand.

4.2. Malaysia's Motivations for MT-JDA

The arguments for MT-JDA and its associated motivations can be examined through various legal documents and conventions of the time, as well as other practical and economic considerations. Whereas the 1979 MoU is the earliest recorded document that explicitly states the intention and position of Malaysia and Thailand in regard to their maritime delimitation dispute, the spirit which enables this cooperation can be traced to earlier dates and events. One of them may be found in Article 2(d) of the 1976 ASEAN Treaty of Amity and Cooperation (1976 TAC) which outlines the fundamental principle of "settlement of differences or disputes by peaceful means" as well as Article 4 in which states that the signatories "will promote active cooperation in the economic, social, technical, scientific and administrative fields as well as in matters of common ideals and aspirations of international peace and stability in the region and all other matters of common interest" (Association of Southeast Asian Nations, 1976b). Beyond Southeast Asia, the 1974 United Nations Charter of Economic Rights and Duties of States (UNGAR 3281 – XXIX) has a provision through its Article 3 which states that "in the exploitation of natural resources shared by two or more countries, each State must co-operate on the basis of a system of information and prior consultations in order to achieve optimum use of such resources without causing damage to the legitimate interest of others" (United Nations General Assembly, 1974). All these can be considered as a precursor, or founding block to the negotiations which leads to the establishment of MT-JDA at later dates. This commitment for peaceful resolution for any regional disputes was also echoed repeatedly in the Malaysian Parliament, when it was stated that "the sovereign rights for the exclusive economic zones must be mutually respected by all ASEAN member countries, especially in the spirit of ASEAN neighbourhood," that Malaysia desires neither conflict nor confrontation and "pertaining to overlapping claims with several ASEAN member countries... from the perspective of the ASEAN Spirit, we are still having negotiations between ASEAN members and referring to the ICJ would be the last resort" (Parliament of Malaysia, 1984b, 2013a).

The JDA is also instrumental for Malaysia's (and Thailand's) energy security, as the resources extracted from the JDA are used to meet the energy needs of both countries (40 Years of Shared Prosperity: Malaysia-Thailand Joint Authority, 2019). Following the formulation of the National Energy Policy 1979 to reduce the dependency on oil in the national energy mix and the National Depletion Policy 1980 which sets a ceiling of petroleum production, choosing alternative fuel sources has become necessary. Natural gas was thus thrust into prominence, together with coal as the chosen alternative, transitional fuel, replacing crude petroleum. The primacy of natural gas in Malaysia's energy sector began in 1985, when its utilisation in power stations to generate electricity grew to 13.221%, a significant shift from the previous year at 2.209%. Natural gas thus became the main fuel in Malaysia's energy sector and its utilisation peaked at 13,860 ktoe in 2014, an equivalent to 43.85% of that year's fuel input to power stations. Overall, natural gas utilisation in power stations

peaked in 2000, at 74.855% of fuel utilised (an equivalent to 11,580 ktoe). In terms of overall supply, as a percentage it averaged at 45.290% between 2008 and 2017 (Energy Commission, 2020j). The significance of natural gas to Malaysia's energy industry can be seen in the following Figure 3.

4.3. Malaysia's Motivation for the ASEAN Power Grid

Despite all these declarations on the APG initiatives since early 1990s, only after almost three decades that a major milestone was reached in 2018, when a successful power transfer from Laos, through Thailand to Malaysia took place through the LTM grid. First mooted in 2013, it was initially planned to be a cooperation between four ASEAN members, the Lao PDR-Thailand-Malaysia-Singapore Power Integration Project (LTMS-PIP). However, Singapore expressed its reservations about the project prior to the signing of the MoU during the 33rd AMEM meetings in 2015, resulting to its withdrawal from the initiative due to different market mechanisms, and excess generating capacity, before eventually re-joining in 2020 for a 2-year trial period (Andrews-Speed, 2020; Babulal, 2017; Interview with MESTECC [23rd December, 2019], 2019). Despite Singapore's withdrawal, an agreement between Lao PDR, Thailand and Malaysia for an importation of 100MW of hydropower to enhance Malaysia's energy security was concluded in September 2017, although this figure was raised to 300MW in 2020 (Andrews-Speed, 2020; Ministry of Economic Affairs, 2018). Unlike the usual, bilateral transactions and connection between two states such as the 1980 Malaysia-Thailand interconnection and the of 1984 Malaysia-Singapore interconnection as previously mentioned, the LTMS interconnection represents the first instance in the region where electricity purchase and delivery were made between three countries, with Thailand acting as the transit state, facilitating the electricity purchase by Malaysia from Laos.

Malaysia's motivation for participating in the APG initiative initially pertained to the economy and energy security concerns. LTM is one of such instances where the arrangement was economically motivated, with Malaysia utilising Thailand's transmission line to purchase the excess energy generated from Laos (Interview with MESTECC [23rd December, 2019], 2019). Rather than increasing domestic generating capacity, purchasing electricity generated by Laos through Thailand appears to be a preferable option due to its competitive pricing compared to locally generated electricity (Parliament of Malaysia, 2017b).

Figure 3: Percentage of LNG utilization in power station and as part of primary energy supply 1980-2017 (Energy Commission, 2020j)

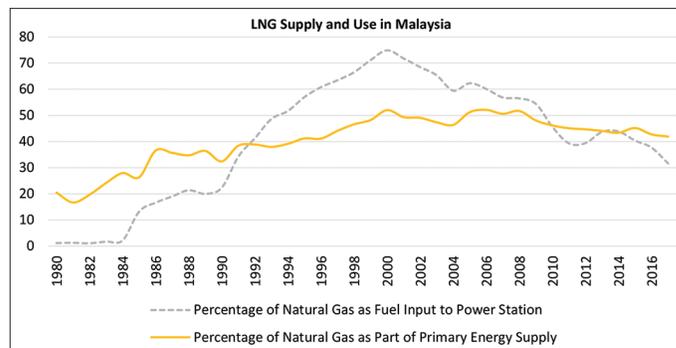
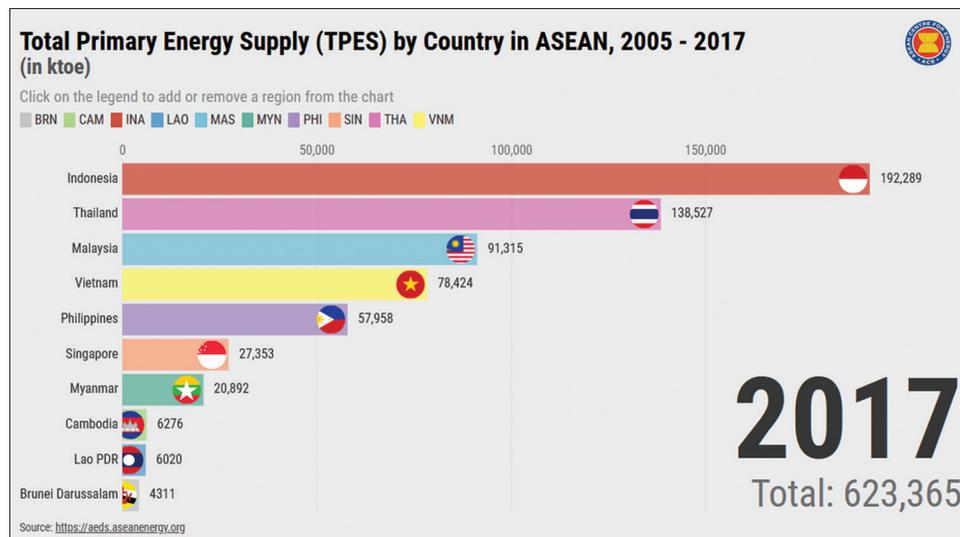


Figure 4: Total primary energy supply (TPES) by Country in ASEAN (ASEAN Centre for Energy, 2020).

This economic aspect on the demand side is more prominent in Peninsular Malaysia with its higher population density and higher demand.

However, in East Malaysia where there is a lower population density and a higher generating capacity, particularly in Sarawak with its multiple big hydroelectric dams, the scenario has resulted in an imbalance on the supply side. This resulted in the creation of Malaysia (Mambong, Sarawak)-Indonesia (Bengkayang, West Kalimantan) 275 kV powerline interconnection commissioned in 2016, where excess energy is being sold to Indonesia. This, in itself might constitute a milestone, or the beginning of a Trans-Borneo Power Grid (Sarawak Energy Berhad, 2017). This Trans-Borneo Power Grid was envisioned as early as 2004, although it was only materialised in 2016, after more than a decade (Wong, 2004). As Indonesia is the biggest energy consumer in the region, there is an energy market to be explored and a demand to be met there (Ahmed et al., 2017). The following Figure 4 from the ASEAN Center for Energy shows the total Primary Energy Supply by Country in ASEAN in 2017. With Malaysia bordering the two largest energy consumers in the region, Indonesia and Thailand, there is an economic opportunity for Malaysia to be an energy exporter in the event of a domestic energy surplus, as how it currently is in Sarawak.

5. CONCLUSION

Whereas Malaysia does not have a specific energy diplomacy strategy or policy in dealing with both MT-JDA and APG concerns, the fundamentals of Malaysia's foreign policy is treating ASEAN as a cornerstone of its regional (and international) engagement remains. Therefore, in both cases of the MT-JDA and the APG, Malaysia relies on the spirit of ASEAN or the ASEAN Way in resolving and addressing both initiatives, by remaining diplomatic, peaceful, and non-confrontational. This is more apparent in case of the APG, through direct involvement of ASEAN as a regional platform and direct project coordinator. An examination on Malaysia's involvement in the MT-JDA and the APG initiatives

indicates that the two main thrusts for Malaysia's involvement in regional energy cooperations are political/security and economic considerations. While there are other reasonings, which can also explain Malaysia's participation, these two are the most prominent and tangible. Despite sharing the main motivations, the underlying causes differs for these two projects.

The cooperation in the JDA stems from an existing maritime delimitation dispute between Malaysia and Thailand. As a final settlement on the issues pertaining to the maritime delimitation has yet to be reached, an agreement to jointly develop the resources in the area was made with the cost and profit shared evenly between the two countries. This demonstrates the willingness of two disputing countries to put their disagreement aside and take a pragmatic approach which benefits both parties. Although the negotiations regarding the formation of a joint authority to manage the disputed area took place over a span of 11 years, from the initial signing of an MoU to the adoption of the Joint Authority's constitution, it did result in a successful arrangement that benefits both sides, and (temporarily) ends the diplomatic deadlock over the overlapping claim. From its involvement in the MT-JDA, Malaysia has gained at least RM 18.315 billion in revenue from the exploration and exploitation of the resources from the JDA. This excludes other economic opportunities which are generated from this arrangement, such as transportation and logistics support for offshore workers, and taxes imposed from those activities. MT-JDA also demonstrated the roles played by Malaysia's national oil corporation, Petronas during the negotiation stage, as an instrument of Malaysia's energy diplomacy to convince its Thailand counterparts to adopt the more profitable PSC model of exploration and extraction instead of the concession system.

The underlying motivation for the APG on the other hand was the realisation by ASEAN member countries of the importance of energy to the modern economy, and that the access to energy resources as well as the support infrastructure are not comparable among ASEAN member states. This is reinforced by the belief that regional prosperity is linked to national prosperity, and that regional integration results in higher economic resilience,

particularly in the aftermath of the 1997 Asian financial crisis. Malaysia for its parts has been a key participant in numerous bilateral grid interconnections, as well as the first regional multilateral grid interconnection through the LTMS-PIP initiative. For its involvement, Malaysia has been benefitting from the APG both as electricity purchaser and seller, and through the readmission of Singapore in LTMS-PIP project, Malaysia will take on the role of a possible transit state as well. There is a bigger opportunity in the future, should an ASEAN regional energy market be formalised and institutionalised, particularly if Malaysia managed to become the regional energy hub, either in the physical sense, virtual sense, or both.

Malaysia's involvement in the MTJA is more direct and prominent than in the APG due to its bilateral arrangement. Through the 1990 Agreement, the MTJA has been empowered by the governments of Malaysia and Thailand to control all aspects of exploration and exploitation of the non-living resources in the area as well as the formulation of any policies for such purposes. As the MTJA is not directly subject to the government of Malaysia (and Thailand), it has the autonomy and flexibility to decide on operational and administrative matters without involving the national governments of both sides and is therefore more responsive. As for the APG, HAPUA is a regional entity of multilateral nature through the participation of ten ASEAN members. As its success relies on consensus and compromises reached between all ten member-states, it is less likely for one country to be more prominent or influential than the other. Being the coordinating entity for the APG, HAPUA is still answerable to AMEM and unlike the MTJA, it does not have the judicial capacity to arbitrate between disputing parties. Therefore, the implementation of the APG involves more bureaucratic layers in the decision-making process, which renders it to be less responsive than the MTJA. This subsequently may affect the overall implementation of the APG vision of a fully inter-connected regional grid and energy market.

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