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## KAZAKHSTAN FLOUR MARKET: PECULIARITIES AND FACTORS OF INCREASING PROFITABILITY OF THE INDUSTRY

ҚАЗАҚСТАНДЫҚ ҰН НАРЫҒЫ: САЛАНЫҢ РЕНТАБЕЛЬДІЛІГІН АРТТЫРУДЫҢ ЕРЕКШЕЛІКТЕРІ МЕН ФАКТОРЛАРЫ

КАЗАХСТАНСКИЙ РЫНОК МУКИ: ОСОБЕННОСТИ И ФАКТОРЫ ПОВЫШЕНИЯ РЕНТАБЕЛЬНОСТИ ОТРАСЛИ

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Abstract. The most important task of the flour milling industry is to provide the population with high-quality flour, pasta, bakery and confectionery products. Therefore, this industry remains the largest in the food industry. *The aim* is to analyze the structure and mechanism of functioning of the flour products market in the Republic of Kazakhstan. *Methods* - analysis, grouping to collect and process statistical information on production, consumption, exports and prices for these food products; comparison and synthesis - when comparing indicators with similar ones in other countries, identifying common trends and unique features. *Results* - the development of flour-milling subcomplex of the republic is shown, export-import relations from 2011 to 2023 are considered. The leaders of flour-milling enterprises, the structure of exports and the largest importers are determined. Unevenness and decrease in production volumes in dynamics are noted. Information on the factors affecting the cost of industrial grain processing is presented. The authors state a significant increase in grain prices. It is substantiated that the increase in production

123

**Food products market** 

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Аңдатпа. Ұн тарту өнеркәсібінің маңызды міндеті - халықты жоғары сапалы ұнмен, макарон, нан-тоқаш және кондитерлік өнімдермен қамтамасыз ету. Сондықтан бұл сала тамақ индустриясындағы ең ірі сала болып қала береді. Мақсаты - Қазақстан Республикасындағы ун өнімдері нарығының құрылымы мен жұмыс істеу тетігін талдау. Әдістер - осы тамақ өнімдерін өндіру, тұтыну, экспорттау және олардың бағалары бойынша статистикалық ақпаратты жинау және өңдеу үшін талдау, топтастыру; салыстыру және синтездеу көрсеткіштерді басқа елдердегімен салыстыру, жалпы үрдістер мен бірегей ерекшеліктерді анықтау кезінде. Нәтижелері - республиканың ұн тарту кіші кешенін дамыту көрсетілді, 2011 - 2023 жылдар аралығындағы экспорттық-импорттық қатынастар қаралды. Ұн тарту кәсіпорындарының көшбасшылары, экспорт құрылымы және ірі импорттаушылар анықталды. Серпінінде өндірістік көлемнің біркелкі еместігі және төмендеуі байқалады. Астықты өнеркәсіптік қайта өңдеу құнына әсер ететін факторлар туралы ақпарат берілді. Авторлар астық бағасының едәуір өсуін атап өтүде. Өндіріс көлемін ұлғайтуға ассортиментті кеңейту және тиімділігі жоғары жаңа технологияларды пайдалана отырып, оның нан пісіру қасиеттерін арттыру есебінен қол жеткізуге болатыны негізделген. Ұн тауарларының экспорттық әлеуетін арттыру - Қазақстанның сыртқы экономикалық саясатының негізгі бағыттарының бірі, аграрлық экономиканы дамыту және экономикалық реформаларды бағалау үшін маңызды мәнге ие. Қорытынды - қазақстандық ұнның жоғары сапасы әлемде дурыс танылғаны атап өтілген. Отандық нарықтағы үрдістер әлемдік үрдістерге сәйкес келеді - жоғары сортты бидайға және одан жасалған жоғары сыныпты бұйымдарға сұраныстың өсүі. Жетекші экспорттаушылар арасында позицияларды ұстап тұру үшін ықпалды мемлекеттік қолдау және отандық өндірушілерді ішкі және әлемдік бағалар арасындағы айырмашылықты өтейтін ынталандыру шараларының нәтижелі кешені қажет.

Аннотация. Важнейшая задача мукомольной промышленности – обеспечение населения высококачественной мукой, макаронными, хлебобулочными и кондитерскими изделиями. Поэтому эта отрасль остается крупнейшей в пищевой индустрии. Цель – проанализировать структуру и механизм функционирования рынка мучной продукции в Республике Казахстан. Методы – анализа, группировки для сбора и обработки статистической информации по производству, потреблению, экспорту и ценам на данные продукты питания; сравнения и синтеза – при сопоставлении показателей с аналогичными в других странах, выявлении общих тенденций и уникальных особенностей. Результаты – показано развитие мукомольного подкомплекса республики, рассмотрены экспортно-импортные отношения с 2011 по 2023 годы. Определены лидеры мукомольных предприятий, структура экспорта и крупнейшие импортеры. Отмечаются неравномерность и снижение производственных объемов в динамике. Представлена информация о факторах, влияющих на стоимость промышленной переработки зерна. Авторы констатируют значительный рост цен на зерновые. Обосновано, что увеличение объемов производства можно достичь за счет расширения ассортимента и повышения ее хлебопекарных свойств с использованием новых высокоэффективных технологий. Наращивание экспортного потенциала мучных товаров – одно из ключевых направлений внешнеэкономической политики Казахстана, имеет важное значение для развития аграрной экономики и оценки экономических реформ. Выводы – подчеркивается, что высокое качество казахстанской муки по праву признано в мире. Тенденции на отечественном рынке соответствуют мировым – рост спроса на высокосортную пшеницу и изделия из нее высшего класса. Для удержания позиций среди ведущих экспортеров необходимы действенная государственная поддержка и результативный комплекс стимулирующих мер, компенсирующих отечественным производителям разницу между внутренними и мировыми ценами.

Key words: agro-industrial complex, flour production, flour-milling industry, flour-milling products market, export, import, state support, food security.

Түйінді сөздер: агроөнеркәсіптік кешен, ұн өндірісі, ұн тарту саласы, ұн өнімдері нарығы, экспорт, импорт, мемлекеттік қолдау, азық-түлік қауіпсіздігі.

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#### Introduction

The agro-industrial complex (AIC) plays a key role in the economy of any country, including Kazakhstan. It not only provides the population with vital products, but also helps to strengthen the economic potential of the state (Porter M.E.) [1].

The development of AIC has a significant impact on the state of other sectors of the economy, the level of food security and the socioeconomic situation in the country.

One of the fundamental industries in the agro-industrial complex is the flour milling industry. This segment is engaged in the processing of cereals and legumes into flour, which makes it vital to ensure the country's food security.

The constant growth of the global population and the increasing demand for food contribute to the sustainability of the demand for flour.

The Republic of Kazakhstan currently occupies one of the leading positions among the largest suppliers of flour on the market.

The country confidently holds its niche in the international flour trade, which allows it to play an appropriate role in relation to the international food market. It is important to note that the export of flour milling products is a key element of the grain sector in Kazakhstan and has a direct impact on its economic development.

However, despite its stable position, the role and rating of Kazakhstan in world trade are constantly changing under the influence of changes in the grain market. The crisis in the milling industry can cause a snowball effect, since non-repayment of VAT will necessarily affect tax revenues and the economy as a whole, leading to negative social consequences.

Factors such as yield, price fluctuations for grain, competition with other exporters, as well as economic barriers have a significant impact on production and exports.

Kazakhstan, having a high level of grain and flour, is actively working to strengthen its position in the international arena, improving production and increasing volumes.

The export of flour milling products for Kazakhstan is not only for foreign exchange earnings, but also an urgent instrument of foreign economic policy. This allows the republic to maintain close trade and economic relations

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with various differences, ensuring stable demand for its products.

Thus, the flour milling industry plays a crucial role not only in ensuring the food security of Kazakhstan, but also in maintaining the economic stability of the country. Given the global trends in global production and food growth, these countries retain their strategic potential for further development.

#### Literature Review

The steady growth of the world's population is causing an increase in demand for food. Cereal-based products are essential for the majority of the world's population, most of these products are made from grain flour (Buyanov S.; Johnson Jerry) [2, 3].

Kazakhstan is currently one of the leaders in flour exports, which underlines the importance of the flour milling industry for the country's economy (Senyk Y., Senchyk I., Nosach N.) [4]. However, despite the high export figures, there is a problem of excess capacity of flour mills. Many mills in the country operate with a low level of capacity utilization, which leads to their closure, especially for lowcapacity mills. These mills have fulfilled their historical role in saturating the domestic market and establishing themselves in the market, but now they are forced to leave it.

Effective management and development of the milling industry requires a strategic approach, including modernization of production facilities, increasing competitiveness and improving product quality (Kuznetsov B.T.) [5].

Government support and investments in technological innovations can help improve the situation, increase the level of capacity utilization and further develop the industry. For a more detailed understanding and analysis of the current situation in the agro-industrial complex of Kazakhstan, as well as the development of effective strategies, it is important to take into account not only internal but also external factors affecting the industry. The introduction of new technologies and management methods, support for small and medium-sized businesses, as well as the development of export potential can contribute to the sustainable growth and development of AIC in Kazakhstan (Kopbaev B.) [6].

The flour market has significant socio-economic importance, especially given the high concentration of population, industry and trade (Gan E.) [7].

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Therefore, it is important to analyze the current state of the market, study its features, identify development trends and develop proposals to improve its effectiveness.

The research on the development of the flour market in Kazakhstan reflects a comprehensive analysis of the current state and prospects of this segment of the agro-industrial complex of the country. It made it possible to identify a number of key aspects affecting its development, including economic, social and technological factors (Kaliev G.A.) [8].

The market as an economic category is a multifunctional and multifaceted concept that requires an integrated approach to its research (Chemirbaeva M.) [9]. This is especially true for food markets such as the flour market. Flour occupies a significant place in the consumption of the population, which makes this market an important object of analysis.

### Materials and methods

To study the development of the flour market in Kazakhstan, the following hypothesis can be formulated: The development of the flour market in Kazakhstan is determined by the interaction of a number of key factors, such as the level of domestic consumption, export potential, government support for the agro-industrial complex, changes in grain production and processing technologies, as well as fluctuations in world prices for grain and flour. The sustainable development of this market is possible under the condition of an integrated approach to solving the problems of the production and distribution chain, which will contribute to the growth of the competitiveness of the Kazakh flour milling industry at the international level.

The main directions for testing the hypothesis: analysis of domestic consumption; export potential; state support; technological changes; grain and flour prices; competitiveness. The following methods can be used to test this hypothesis (Tregub I.V.) [10]: statistical analysis; econometric analysis; qualitative research; comparative analysis.

Thus, a comprehensive study of the flour market in Kazakhstan using various analysis methods will confirm or refute the hypothesis put forward and develop recommendations for the development of the flour milling industry.

### Results

After reaching record levels in 2017-2018, flour production in Kazakhstan slowed down its growth rate, which led to a significant decline in subsequent years. For example, production decreased by 16% by the end of 2019 and by another 12% in 2020. A slight increase was Flour production in Kazakhstan is determined by several key factors. Firstly, it depends on the level of wheat harvest in the country, which affects the availability of raw materials for processing. Secondly, the volume of flour production also depends on the demand for finished products and the possibilities of its sale on the market.

Until 2018, Kazakhstan saw a steady increase in the gross wheat harvest, reaching about 15 million tons in 2017 and 2018. However, in the next few seasons, crop losses occurred due to unfavorable agro-climatic conditions. Despite this, from the point of view of raw materials for flour production, this decline has not become critical (Chemirbaeva M.) [9].

The analysis of AIC-Inform shows that, on average, over the past 12 seasons, about 38% of the grown wheat was used for flour production. Even in lean years such as 2019 and 2021, this figure ranged from 35% to 37% (figure 1). This indicates that flour production in the country remains relatively stable due to the efficient use of available raw materials. It is also important to consider a balanced ratio between production and demand for finished products to ensure the long-term sustainability of the flour milling industry.

Analyzing the sales of manufactured products, it can be noted that exports play a key role for the flour mills of Kazakhstan. The export market is becoming a determining factor affecting production volumes and, consequently, the overall dynamics of the industry.

Over the long term, the average share of flour exported from the Republic of Kazakhstan is an impressive 52% of the total production in the country. This highlights the significant dependence on export markets and the focus on external demand.

Thus, export volumes are largely determined by production volumes. The dynamics of export supplies is parallel to production volumes. Any changes in production volumes have a direct impact on exports, which underlines the importance of sustainability and growth of the production base in order to maintain and expand its share in the global market.

## Азық-түлік өнімдері рыногы



Note: compiled by the authors based on sources (Statistical data of the Bureau of National Statistics...; The website of Fact.mr) [11, 12]

Figure 1- Dynamics of flour production in Kazakhstan from 2011 to 2023

In addition, stability in the field of export supplies also plays an important role in the development of long-term strategies for the development of the industry, strengthening its position on the world stage and contributing to sustainable economic growth.

After analyzing the dynamics of revenue generation from flour exports, several notable trends can be identified. From 2016 to 2019 inclusive, there was a period of significant revenue decline caused by relatively low prices for exported flour. For example, in 2018, the average cost of export shipments of Kazakh flour reached its minimum value, amounting to 195 US dollars per ton (figure 2).

From 2020 to the present, there has been a significant increase in export revenue due to an increase in the average cost of export shipments. For example, by the end of 2023, this indicator is estimated at 399 US dollars per ton, which is an absolute record for the last 12 seasons.



Note: compiled by the authors based on sources (Statistical data of the Bureau of National Statistics...; The website of ResearchGate) [11, 13]

Figure 2 - Dynamics of flour exports from Kazakhstan

Food products market

However, an increase in revenue from the sale of flour for export does not necessarily mean an increase in the efficiency of flour milling enterprises in Kazakhstan. Despite the increase in revenues, the workload of enterprises remains insufficient, and the cost of raw materials, auxiliary resources and logistics costs continues to grow.

Accordingly, although the increase in export revenue indicates positive changes in the flour milling industry in Kazakhstan, in order to achieve higher efficiency, it is also necessary to pay attention to other aspects of production and cost management.

Over the past 12 seasons, approximately 85% of Kazakhstan's flour has been exported to two major countries – Uzbekistan and Afghanistan (figure 3). While Uzbekistan was the

main importer until 2015, since 2016 Afghanistan has become the key buyer of Kazakh flour, holding a leading position to this day.

However, the increase in flour supplies to Afghanistan is more due to the loss of this market by Pakistan, which over the past five years has moved from the category of stable exporters of wheat and flour to the category of active importers of these products.

The development of the milling industry in Uzbekistan has become a significant factor affecting the wheat and flour market in the region. The active development of the flour milling industry in Uzbekistan, supported by strong government support, has created competitive conditions for Kazakhstani flour producers.



Note: compiled by the authors based on sources (Statistical data of the Bureau of National Statistics...; Website "Agrarian sector") [11, 14]

Figure 3 – Dynamics of exports of Kazakh flour in monetary terms

One of the interesting aspects of this development is the emergence of enterprises in Uzbekistan, headed by experienced millers from Kazakhstan. These enterprises use imported grain from Kazakhstan, providing convenient logistics and producing flour on site, which turns out to be economically more profitable.

In addition, a significant part of the mill enterprises in Uzbekistan belongs to Afghan investors. Due to the political instability in Afghanistan, these enterprises prefer to process wheat coming from Kazakhstan and Russia according to the tolling scheme in Uzbekistan, and then export flour back to Afghanistan (figure 4).

As a result of this situation, according to the results of the 2021 marketing year, a record high import of Kazakh wheat to Uzbekistan was recorded, reaching 3.23 million tons. At the same time, the supply of flour from Kazakhstan to Uzbekistan decreased to minimum values only 0.36 million tons. This situation highlights the importance of competition in the flour market and the need for Kazakhstani producers to adapt to changing conditions and competitive pressure from other countries.

Analyzing the export trends of Kazakh flour over the past few seasons, several interesting observations can be identified. When comparing the periods from July to November over the last three seasons, it becomes obvious that this season there is a significant increase in supplies to Afghanistan (+70% compared to the previous season) and to Uzbekistan (+14%).

However, it is worth noting that supplies to Tajikistan, Turkmenistan and Russia decreased by 11%, 6% and 38%, respectively. Despite this, the absolute volume of supplies to these countries remains relatively small.

128

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Note: compiled by the authors based on sources (Statistical data of the Bureau of National Statistics...; Website «inbusiness.kz») [11, 15]

Figure 4 - Dynamics of supplies of Kazakh flour in the direction of key importing countries

The analysis allows us to draw several conclusions. Firstly, the increase in supplies in Afghanistan and Uzbekistan indicates an increase in demand for Kazakh flour in these countries, possibly related to population growth or a change in consumer preferences. Secondly, the decrease in the volume of purchases in Tajikistan, Turkmenistan and Russia may be due to various factors, such as the economic situation or changes in consumer preferences.

Thus, the analysis of trends in the export of Kazakh flour is important information for strategic planning and marketing decisions in the milling industry, allowing for a better understanding of changes in demand for products and market trends in various countries.

Russia is actively expanding its presence in the markets of Central Asia, tightening competition with Kazakh flour. This season, the situation has worsened due to the increased pressure of Russian flour on the market caused by the military actions of the Russian Federation against Ukraine and the imposition of sanctions. The surplus wheat harvest in Russia led to a significant increase in flour production, which began to use new logistics routes through Kazakhstan, which have long been used by Kazakhstani exporters.

An example of such dynamics is the supply of Russian flour to Turkmenistan, which increased from 3.2 thousand tons in 2021 to 25.8 thousand tons by the end of 2023, which is an increase of more than 8 times! The analysis of KTZ data on the transit of Russian flour through Kazakhstan also reflects an increase in this indicator. In 2022, transit increased by 84%. If in 2020 and 2021 about 166 thousand tons of flour of Russian origin passed through the Republic, then in 2022 this figure increased to a record 307.7 thousand tons.

This growth in transit has a significant impact on the economy of Kazakhstan, raising concerns about job losses and lost tax revenues. For example, 300 thousand tons of transit flour can lead to the loss of 5 jobs and losses in the amount of 2.5 billion tenge of tax revenues to the economy of Kazakhstan, according to the Union of Grain Processors of Kazakhstan. This situation highlights the need to take effective measures to protect the interests of the flour milling industry and the economy of the country as a whole, in order to minimize the negative consequences of increased transit of Russian flour through the territory of Kazakhstan.

The increase in wheat imports from Russia to Kazakhstan is due to several key factors. First, the growing consumption of bread products in the countries of Central Asia and Afghanistan requires additional grain supplies. Secondly, the outstripping growth rates of the cost of wheat grown in Kazakhstan compared to Russian, stimulate companies and entrepreneurs to look for more profitable sources of supply.

However, in addition to official imports, the Kazakh market is under pressure from smug-

Food products market

129

gled Russian grain. The growing volume of illegal imports is stimulated by the possibility of selling Russian wheat through Kazakhstan without paying taxes and duties. This is due to document manipulation, when smugglers falsify information about the origin of goods and their passage through the territory of Kazakhstan in order to avoid rules and tax obligations.

The smuggling of Russian wheat through Kazakhstan really poses a serious threat to the country's economy and leads to significant losses both for the state budget and for legal business in agriculture. This shadow business bypasses tax and customs duties, which violates the law and creates unequal conditions for law-abiding participants in the grain market.

According to the estimates of the Union of Processors of Kazakhstan, the annual losses from the smuggling of Russian wheat reach about 500 million dollars. These losses not only reduce state budget revenues, but also distort competitive conditions in the market, infringing on law-abiding companies.

To solve this problem, it is necessary to strengthen control over the border, as well as improve monitoring and coordination between various government services. It is also important to develop cooperation with Russia on grain export control and anti-smuggling issues. Taking effective measures to prevent smuggling will help reduce losses and ensure fair conditions for all participants in the grain market in Kazakhstan.

According to the results of the analysis, it can be concluded that in addition to external challenges, internal factors significantly negatively affect the Kazakh flour market. Logistical problems, such as a shortage of wagons during peak demand and restrictions from Kazakhstan's Temir Zhol, as well as grain and flour transportation routing strategies, make it difficult to deliver products to markets and increase costs for producers.

The lack of sufficient government support is also a serious problem. Despite the appeals of the President and statements by officials about the need to develop the processing and export of finished products, rather than raw materials, real support from the state is insufficient. This creates additional difficulties for flour mills.

One of the key problems for the milling industry is the issue of VAT refunds. The inability to receive a VAT refund leads to significant losses of working capital, which are estimated at about 40 billion tenge annually. These losses have a serious impact on the operational efficiency of enterprises.

### Due to a shortage of working capital, milling enterprises are forced to apply for loans at high interest rates of up to 25% per annum. This increases the cost of flour and reduces its competitiveness in the market. Moreover, such conditions do not contribute to the development of exports and create additional obstacles to the growth of the industry.

In general, these internal factors increase the difficulties faced by flour mills in Kazakhstan. Solving these problems requires a comprehensive approach from the government and the business community aimed at improving logistics, ensuring adequate government support and improving financing conditions for the industry.

Apparently, the milling industry is on the verge of crisis. If the problem with VAT refunds is not resolved in the near future, this may lead to the risk of losing sales markets, which is already beginning to manifest itself. This situation can have serious consequences both for individual enterprises and for the entire industry as a whole.

## Discussion

The crisis in the milling industry can cause a snowball effect, since non-repayment of VAT will necessarily affect tax revenues and the economy as a whole, leading to negative social consequences. Considering that about 60 thousand people are employed in this industry, job losses can become a serious problem for many families and regions.

Kazakhstani processors are in a difficult situation: on the one hand, they are being aggressively pushed out of the sales markets that they have been holding for a long time. On the other hand, the rules of the game are constantly being violated inside the country, which creates additional difficulties and complicates the situation.

Analyzing the current situation, it can be noted that the decision of the Government of the Republic of Kazakhstan on possible supplies of Kazakh grain products to Pakistan is an important step for the development of the country's export opportunities. However, at the moment, the lack of formal agreements limits the specific prospects of this direction. The need to conclude appropriate agreements and establish partnerships with Pakistan remain key steps for further export expansion.

The situation with the Chinese market, although it represents a potentially attractive destination due to geographical proximity, high capacity and solvency, is complicated by a high customs tariff of 65%. This is a significant obstacle to the supply of Kazakh flour, which

## Азық-түлік өнімдері рыногы

Nevertheless, the countries of Central Asia continue to be the most realistic export destination for flour mills in Kazakhstan. This region retains significant potential for the development of trade and cooperation. In addition, Kazakhstan can learn from the experience of its neighbors, who have made significant progress in developing their own processing facilities in a short period of time. This experience can be important for improving the competitiveness and efficiency of the flour milling industry in the country.

## Conclusion

1. Analyzing the situation, we can conclude that the high quality of "made in Kazakhstan" flour really contributed to the well-deserved recognition of this product on the world market. However, in conditions of fierce competition, in addition to quality, the cost of production begins to play a decisive role, determining the possibility of competition at the price level.

2. In Russia, favorable agro-climatic conditions make it possible to reduce the cost of grain production, which affects the final cost of flour and creates additional challenges for Kazakhstani producers. In conditions when grain in a neighboring country has a lower cost, the competitiveness of Kazakh flour is questioned.

3. In order for Kazakhstan to maintain its position among the world's flour exporters, active support from the state is needed.

4. State support for the Kazakh flour market should include compliance with fair play rules, such as VAT refunds, which help reduce the financial burden on enterprises. In addition, it is important to use protectionist measures and actively seek new markets at the international level to maintain the competitiveness of the industry.

5. With comprehensive support and the adoption of appropriate measures by the state, it is possible to maintain Kazakhstan's leader-ship among global flour exporters.

Authors' contribution: Olga Aleksandrovna Tsapova: drafting the article plan, its content and methodology, checking, analyzing, summarizing, evaluating the data obtained during the writing of the work, using statistical and mathematical methods for analyzing and summarizing research data; Ayulov Abilmazhin Musaipuly: review of the necessary literature, preparation of conclusions; Smolyaninova Svetlana Fedorovna: finalizing the publication draft, writing a brief conclusion summarizing the results of the study, annotations and keywords.

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131

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132

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