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19 January 2023

BY EMAIL: Armaguard-Prosegur-Merger@accc.gov.au

Louisa Wilson
Assistant Director (a/g)
Competition Exemptions Branch
Australian Competition and Consumer Commission

Dear Ms Wilson

Armaguard/Prosegur – response to ACCC's Statement of Preliminary Views - MA1000022-1

We act for a multi-store retail chain.

We write in response to the ACCC's Statement of Preliminary Views in relation to the proposed transaction between Linfox Armaguard Pty Ltd and Prosegur Australia Holdings Pty Limited (**Proposed Transaction**). As you know, we previously sent the ACCC a submission dated 31 October 2022 on our client's behalf in relation to the ACCC's initial market inquiries. Terms that are not otherwise defined in this letter have the same meaning as in the Statement of Preliminary Views.

Our client broadly agrees with the ACCC's preliminary views about the competitive effects and public benefits and detriments of the Proposed Transaction. In particular, our client agrees with the following preliminary findings:

Effects of the Proposed Transaction on competition to supply full-service CIT services to retail customers

- The Proposed Transaction will combine the two largest suppliers of CIT services to the Major Banks and retail customers who require a full-service solution. The merger parties are the only two suppliers that offer national coverage.
- The merger parties are each other's closest competitor.
- In the absence of competitive constraint, the sole major supplier would have the ability and incentive to substantially raise prices from current levels.
- There would likely be a decrease in service quality, which could impact CIT processing times, same/next day processing and pick-up frequency.
- Remaining smaller scale suppliers of CIT services would not constrain the sole major supplier, and there would be a lack of viable substitutes.
- The threat of entry or expansion into supply of full-service retail CIT services is unlikely to significantly constrain a sole supplier.
- Barriers to providing full-service retail CIT services of the scope required by major customers are high. Substantial up-front investment would be required to compete effectively against a dominant sole supplier.

- The threat of retail customers insourcing their CIT services is only a limited competitive constraint: even large national retailers would lack an efficient scale and scope, so a threat to insource could only prevent full-service retail CIT services from rising to the extremely high levels necessary to make insourcing viable.
- The ability of retailers to not accept cash is unlikely to be a meaningful competitive constraint on a sole supplier of CIT services: the cost of CIT services would need to rise to levels where it would outweigh the cost to retailers of potentially losing customers who value the availability of cash as a payment method.
- Customers of CIT services are unlikely to have significant bargaining power and would be limited to the service offering of the sole supplier.
- Existing contracts are likely to provide only a short-term constraint.
- A sole supplier is unlikely to be constrained by the threat of RBA intervention.

Public benefits

- The Proposed Transaction is unlikely to result in a significant public benefit in avoiding the costs and disruption of a major supplier ceasing to supply CIT services.
- Some of those costs would in any event be incurred in transitioning customers to a merged entity.
- If one of the major suppliers ceases supplying CIT services, the claimed public benefit of a reduction in duplicated fixed costs does not arise (because they would be reduced or eliminated in any event). If neither major supplier exits the market, the Proposed Transaction reducing the duplication of Approved Cash Centres would generate some productive efficiencies in the supply of CIT services. However, the extent to which this would be passed on as cost savings to customers (because of a lack of competitive pressure) limits the extent of the public benefit.
- The Proposed Transaction is unlikely to result in a significant public benefit in the form of creating a sustainable entity better placed to invest and ensuring high levels of service. Any constraint non-cash payments impose may not be sufficient to provide the merged entity with incentives to invest.
- Avoiding the costs of a new regulatory model is not a public benefit generated by the Proposed Transaction because the RBA is not proposing to introduce a new regulatory model for cash distribution.

Public detriments

- The key public detriment is the loss of competition if the merger parties ceased to compete against each other in supplying CIT services, resulting in higher prices, reduced levels of services and/or reduced innovation.
- The Proposed Transaction could result in a public detriment by reducing the level of CIT services or increasing prices in regional areas.

Our client continues to hold serious concerns that the Proposed Transaction will substantially lessen competition in one or more markets in Australia and that any public benefits arising from the Proposed Transaction will be outweighed by the significant public detriments arising from allowing the only two national suppliers of cash-in-transit services to combine.

Our client accordingly urges the ACCC to not authorise the Proposed Transaction.

Our client does not propose to provide any further information in response to the Statement of Preliminary Views. However, our client is willing to assist the ACCC should it have any specific questions for our client or require further information.

Yours sincerely

Ross Zaurrini

Partner