8 May 2023

Merger Investigations Branch Australian Competition & Consumer Commission Your Ref: MA1000022 Attention: Alex Reed and Lynette Lymbers

By email: <u>Armaguard-Prosegur-Merger@accc.gov.au</u> mergersru@accc.gov.au

Dear Mr Reed and Ms Lymbers,

## Coles Group Limited (Coles): Armaguard/Prosegur – submission in relation to Revised Proposed Undertaking

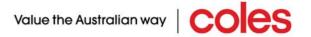
Thank you for your letter dated 1 May 2023 regarding the proposed merger between Armaguard and Prosegur (**Proposed Transaction**) and for your invitation for Coles to comment on the Revised Proposed Undertaking (**Revised Proposed Undertaking**).

Please find attached Coles' submission on the issues it considers relevant to the Commission's consideration of the Revised Proposed Undertaking.

Yours sincerely

## **Fiona Morse**

Managing Counsel – Legal Regulatory



## Submission in response to Revised Proposed Undertaking

Defined terms below have the meaning given to those terms in the Revised Proposed Undertaking.

Does the Revised Proposed Undertaking provide appropriate price constraints for cash-in-transit (CIT) services?

Coles considers that the Revised Proposed Undertaking still does not provide appropriate price constraints on the post-merger entity (**MergeCo**) for CIT services. This is because the limit on the extent to which prices can increase annually for customers (now CPI + 7.5%) under the Revised Proposed Undertaking does not encourage MergeCo to become more efficient than the prevailing economic conditions, nor does it encourage MergeCo to agree to anything less than the (CPI + 7.5%) as an annual increase for all contracts requiring extension/renegotiation.

Is the Revised Proposed Undertaking sufficient to provide appropriate service quality and geographic coverage to existing and new customers?

Coles' opinion is that the Revised Proposed Undertaking is still not sufficient to prevent reductions in service quality or coverage. The Revised Proposed Undertaking has insufficient detail as to how MergeCo will not only maintain, but improve, service levels in the future.

Coles continues to have concerns that:

- Coles' store operations could be impacted by supply chain disruptions to MergeCo (e.g., strikes, servicing delays, etc.) and Coles would have no alternative CIT service provider with a national presence to engage.
- MergeCo's subcontractors' costs/service quality may deteriorate if they are only engaged by a single scale supplier of CIT Services.
- MergeCo will not have any incentive to continue to provide cost optimisation services for Coles, comparable with current contractual arrangements.
- continuation of and/or improvements of service commitments and KPIs under current contractual arrangements will be at MergeCo's discretion to accept moving forward.

Does the Revised Proposed Undertaking remove incentive or ability for the Merged Entity to foreclose on or discriminate against independent ATM providers?

Coles has no submissions in respect to this question.

Does the Revised Proposed Undertaking provide for access to cash centres by third parties on reasonable commercial terms, conditions and for reasonable prices?

Coles has no submissions in respect to this question.

Does the Revised Proposed Undertaking have the potential to distort the market over the 3-year term of the Revised Proposed Undertaking?

Coles repeats its comments in response to this question as set out in its submission of 6 April 2023 and maintains its view that the Revised Proposed Undertaking has the potential to distort the market over the 3-year term of the Revised Proposed Undertaking.

Does the Revised Proposed Undertaking allow for effective operation, oversight and enforcement of the Revised Proposed Undertaking?

Coles maintains its view that the Revised Proposed Undertaking does not allow for effective operation, oversight and enforcement of the Revised Proposed Undertaking.

In addition to the comments made in our submission of 6 April 2023 that any Proposed Undertaking should:

- require MergeCo to bear reasonable risks incurred in the ordinary course of business; and
- include an independent review process that assesses the prudency of costs charged by MergeCo for CIT services;

Coles is of the view that any Revised Proposed Undertaking should also encourage efficiency and incentivise investment and/or innovation in the provision of CIT services.