AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Statement of Preliminary Views

21 December 2022

Linfox Armaguard Pty Ltd and Prosegur Australia Holdings Pty Limited

Application for merger authorisation MA1000022

Key points

- The ACCC is considering an application for merger authorisation lodged by Armaguard and Prosegur (the Applicants) to combine their cash distribution and management, device monitoring and maintenance and ATM businesses in Australia (the **Proposed Transaction**).
- Merger authorisation provides statutory protection from legal action under section 50 of the *Competition and Consumer Act 2010* (Cth) (the **Act**), which prohibits the acquisition of shares or assets if the acquisition would have or be likely to have the effect of substantially lessening competition in any market.
- In order to grant authorisation, the ACCC must be satisfied in all the circumstances that the Proposed Transaction is not likely to have the effect of substantially lessening competition or that it is likely to result in public benefit that outweighs the public detriment that would be likely to result.
- This Statement of Preliminary Views outlines the ACCC's views about key issues, including the likely future without the Proposed Transaction, factors affecting relevant areas of competition, how the Proposed Transaction is likely to impact these areas of competition, and the likely benefits and detriments of the Proposed Transaction.
- In respect of the competitive effects of the Proposed Transaction, the ACCC is considering whether the Proposed Transaction is likely to affect competition for the supply of cash-in-transit (**CIT**) services (cash transport, management and processing services), particularly to customers who require the full suite of CIT services that the Applicants offer. The Applicants are the 2 largest suppliers of these services and the only suppliers who provide services nationally.
- The Applicants submit that ongoing competition between them is not sustainable as declining demand has resulted in uneconomic low prices for CIT services. Consequently, they consider that if the Proposed Transaction does not proceed, one of them is very likely to cease supplying CIT services in the short to medium term. However, the ACCC is also considering another possible future without the Proposed

Transaction where it is possible that more than one major CIT supplier continue to operate sustainably and independently. Possible options under this scenario include:

  - the Applicants remaining sustainable through either successful restructuring, or through an arrangement short of a full merger, such as partial closure of the most unprofitable parts of their operations or entry into joint venture arrangements, or
  - acquisition of the outgoing Applicant's business, or parts of its business, by a third party or parties.

- The ACCC is continuing to consider whether more than one major supplier would continue to supply CIT services absent the Proposed Transaction. If so, then the ACCC's preliminary view is that there will be a significant difference in the level of competition in the relevant markets as compared to a future in which more than one supplier would continue to supply CIT services.
- The ACCC is considering a range of potential public benefits that may arise as a result of the Proposed Transaction. The ACCC considers that some of the public benefits submitted by the Applicants are most relevant when considered against a scenario where one, or both, of the Applicants will cease supplying CIT services if the Proposed Transaction does not proceed (for example, maintaining confidence in cash as a payment system). Other public benefits submitted are most relevant when considered against a scenario where more than one major supplier of CIT services will continue to operate independently of each other (for example, reduced duplication of fixed costs).
- A key public benefit submitted by the Applicants is that the merger would avoid dislocation costs, uncertainty and customer impacts such as potential cash shortages if one of them was to withdraw its CIT services in a manner that was not managed to avoid these impacts. As noted, the ACCC is assessing whether both Applicants (or their respective businesses, in some form) would continue to provide CIT services in the event that the Proposed Transaction does not proceed. We are also considering whether the withdrawal of these services, if that did occur, would be likely to be in a manner that was not managed to avoid adverse consequences for customers. We are considering whether, alternatively, the business withdrawing its services would be likely to seek to do so through an orderly withdrawal that honoured existing contractual obligations, sought to minimise disruption to customers and did not cause reputational damage to its other extensive business operations.
- The ACCC considers the most significant potential public detriments from the Proposed Transaction are likely to be the competitive detriments that may be realised if the Applicants were to cease competing against each other to supply CIT services. These are substantially increased prices and/or reduced levels of service offerings (for example, pickup frequency, geographic scope of pickup routes and processing times) or decreased innovation compared to the scenario where the Proposed Transaction does not proceed. The ACCC is also considering 2 other possible public detriments: reduce access to cash in regional areas and reduced ability to manage any disruption to the supply of CIT services, thereby making it more difficult for the public to access cash if such disruption does occur.

Next steps

- The ACCC invites submissions about any of the issues discussed in this Statement of Preliminary Views. We request that you provide your submission by no later than 20 January 2023. The ACCC may, but need not, take into account submissions received after this date. Under the current statutory timeframe, the ACCC must issue a determination in relation to Armaguard and Prosegur's application for merger authorisation by 31 March 2023.

1. The Proposed Transaction

1.1. The ACCC is considering an application for merger authorisation lodged by Linfox Armaguard Pty Ltd (**Armaguard**) and Prosegur Australia Holdings Pty Limited (**Prosegur**) on 27 September 2022 (the **Application**).

1.2. Armaguard and Prosegur (the **Applicants**) are seeking authorisation to combine their cash distribution and management (cash-in-transit or **CIT** services), device monitoring and maintenance and ATM businesses in Australia (the **Proposed Transaction**).

1.3. As part of the Proposed Transaction:

- Armaguard will purchase 100% of the shares in Prosegur Australia Pty Limited and Precinct Hub Pty Ltd from Prosegur, being the businesses that carry out Prosegur's CIT, maintenance and ATM businesses
- Armaguard will issue shares in Armaguard to Prosegur, such that Prosegur will hold 35% of the total issued share capital of Armaguard on completion.

1.4. In addition, shares will be transferred or issued such that Prosegur will have a 15% shareholding in Armaguard's technical services business, Integrated Technology Services, which provides equipment procurement and maintenance services to Armaguard's ATM network and to third parties including banks and other ATM suppliers.[1]

1.5. The Application was made under section 88(1) of the *Competition and Consumer Act 2010* (Cth) (the **Act**). A merger authorisation provides protection from legal action under section 50 of the Act, which prohibits an acquisition of assets that has or is likely to have the effect of substantially lessening competition in any market.

Stated rationale for the Proposed Transaction

1.6. The Proposed Transaction would combine the 2 largest suppliers of CIT services in Australia. The Applicants submit the Proposed Transaction would create a financially sustainable business with an efficient cost base which can invest in innovative, safe, and efficient infrastructure and technology to support the availability of, and continued access to, cash in Australia on safe and secure terms.[2]

1.7. The Applicants note the decline in cash usage and submit that they have separately implemented extensive efficiency and improvement programs to reduce costs, including outsourcing services where cost effective. However, because of the high fixed costs of providing CIT services and declining demand for cash, the unit cost of supply of CIT services has increased significantly. The Applicants submit that neither can operate a financially viable business providing cash-related services.[3]

1.8. More broadly, the Applicants submit that the existing market structure cannot support 2 national suppliers and that ongoing competition between them is not sustainable.[4] They submit this unsustainable competition is due to dramatically declining demand that has produced uneconomic low prices for CIT services.[5] Consequently, they consider that, absent the Proposed Transaction, 1 of them is very likely to cease supplying CIT services in the short to medium term.[6]

1 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 10.
2 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 10.
3 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 11.
4 Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 11-12.
5 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 17.
6 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 120.

The test for merger authorisation

1.9. The ACCC may grant merger authorisation, but must not do so unless satisfied, in all the circumstances, that either:

- the conduct would not have the effect, or not be likely to have the effect, of substantially lessening competition (the 'No SLC Test'), or
- the conduct would result, or be likely to result, in a public benefit, and this public benefit would outweigh the public detriment that would result, or be likely to result, from the conduct (the 'Net Public Benefit Test').[7]

Public consultation

1.10. The ACCC tests claims made by an applicant in support of an application for authorisation, and by others who may support or oppose authorisation, through an open and transparent public consultation process.

1.11. In response to the Application, the ACCC sought the views of a range of interested parties, including CIT suppliers, device monitoring and maintenance and ATM services, customers, and relevant regulatory and industry bodies.

1.12. The ACCC received around 30 public submissions from interested parties and conducted additional market inquiries. All submissions are available on the merger authorisations register, except information subject to a claim of confidentiality.

1.13. The ACCC has also received and will have regard to a range of information and documents from relevant parties using its statutory information gathering powers and through voluntary requests for information. This material is generally not placed on the public register as it is confidential, but it is information the ACCC has regard to.

2. Industry background

The Applicants

Armaguard

2.1. Armaguard is an Australian proprietary company. Armaguard is wholly owned by Linfox Proprietary Limited (**Linfox**), which in turn is wholly owned by LEPGF Pty Ltd, the ultimate parent company of the Linfox Group.[8]

2.2. Linfox operates its Armaguard business in Australia through Armaguard and 5 subsidiaries, 3 of which form part of the Proposed Transaction.[9]

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7 *Competition and Consumer Act 2010* (Cth) s 90(7).

8 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 22.

9 Armaguard's wholly owned subsidiaries which are included in the Proposed Transaction are Point 2 Point Secure Pty Ltd which, together with Armaguard, operates the cash transport, management, and cash processing and settlement services, Armaguard Technology Solutions Pty Ltd, which operates Armaguard's ATM network in Australia and Integrated Technology Services Pty Ltd, which provides equipment procurement and maintenance services to Armaguard's ATM network in Australia, and to third parties including banks and other ATM suppliers.

Armaguard's 2 remaining Australian subsidiaries, Global Integrated Solutions Pty Ltd and Armaguard Asset Company Pty Ltd, and its foreign operations and subsidiaries in New Zealand and Thailand do not form part of the Proposed Transaction. Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 23.

Prosegur

2.3. Prosegur is wholly owned by Prosegur Cash, SA, a company incorporated in Spain. Prosegur Cash, SA is majority owned and controlled by Prosegur Compañia de Seguridad, SA, the ultimate parent company of the Prosegur Group.[10]

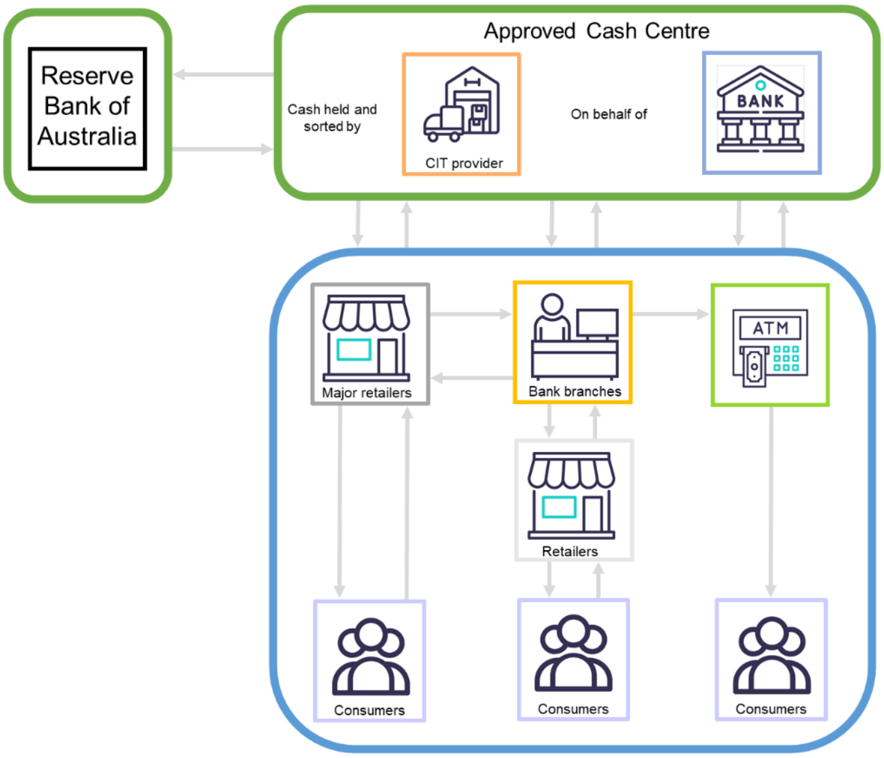
2.4. The Prosegur Group entered Australia through its acquisition of Chubb Security Services Pty Ltd in 2013. Prosegur also acquired Toll Secure in 2016 and Cash Services Australia Pty Limited in 2017.[11]

2.5. Prosegur operates its business in Australia through 3 subsidiaries, 2 of which will form part of the Proposed Transaction.[12]:

Australia's cash distribution system

2.6. The wholesale banknote distribution system involves the bulk movement of banknotes from the Reserve Bank of Australia (the **Reserve Bank**) to CIT suppliers' cash depots (Approved Cash Centres) around the country. Banknotes are then distributed from these depots to bank branches, ATMs and retailers, from where they are available to the public (retail cash distribution). Banknotes are returned to the Reserve Bank for destruction at the end of their life.[13] Figure 1 below provides a simplified illustration of Australia's cash distribution system, with the green indicating the wholesale component and blue the retail component.

Figure 1: The Cash Cycle in Australia – Physical movement of banknotes



[10] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 31.

[11] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 32.

[12] Prosegur's 3 Australian subsidiaries are (a) Prosegur Australia Investments Pty Limited, the holding company of Prosegur Australia Pty Limited, which is the company that operates Prosegur's CIT, device monitoring and maintenance, precious cargo transportation services and the Kwikcash and white label ATM network in Australia, (b) Precinct Hub Pty Ltd, which operates Prosegur's Precinct ATM network in Australia and (c) Prosegur Foreign Exchange Pty Limited, which operates Prosegur's retail foreign exchange business, primarily at airports. Prosegur Australia Pty Limited and Precinct Hub Pty Ltd will form part of the Proposed Transaction, Prosegur Foreign Exchange Pty Limited will not. Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 32.

[13] Reserve Bank of Australia submission, 28 October 2022, p 2.

2.7. The issuance of banknotes from the Reserve Bank into circulation is facilitated by a set of agreements, known as the Banknote Distribution Agreements. These are bilateral contracts between the Reserve Bank and participating institutions – each of the Commonwealth Bank of Australia (**CBA**), Australia and New Zealand Banking Group Limited (**ANZ**), National Australia Bank (**NAB**) and Westpac Banking Corporation (**Westpac**) (together, the **Major Banks**).

2.8. Banknote Distribution Agreements provide the contractual framework for the purchase and return of wholesale banknotes from/to the Reserve Bank. The Reserve Bank makes interest payments to the Major Banks on the value of quality-sorted banknotes they store in their respective banknote pools at Approved Cash Centres (these banknote pools are known as verified cash holdings).[14]

2.9. The Major Banks are currently the only institutions that can purchase banknotes directly from the Reserve Bank.[15]

2.10. In addition to the bulk movement of banknotes between the Reserve Bank and Authorised Cash Centres, wholesale cash distribution also involves banknote fitness sorting and the daily reporting of cash holdings on behalf of the Major Banks. It also includes the cash services that facilitate the inter-bank trading between the Major Banks.[16]

2.11. Retail cash distribution involves the transport of banknotes between Approved Cash Centres and locations where they are available to the public, such as branches of the non-major banks, ATMs and retailers, as well as the associated cash processing and administrative services.[17]

Approved Cash Centre Operators

2.12. Banknote Distribution Agreements do not prescribe that the Major Banks outsource their wholesale banknote distribution and processing activities to CIT service suppliers, although each of them currently do, to varying degrees. The Banknote Distribution Agreements require that the Reserve Bank accredits the relevant CIT supplier for the purpose of accessing the Reserve Bank's distribution sites as an Approved Cash Centre Operator.[18]

2.13. Approved Cash Centre Operator accreditation allows CIT suppliers to transport cash between the Reserve Bank and Approved Cash Centres and to process the banknotes held in the Major Banks' banknote pools.[19]

2.14. The Reserve Bank rewards the Major Banks for maintaining quality standards for banknotes in circulation, including by paying interest on verified cash holdings if they have been fitness sorted according to the Reserve Bank's standards and by making incentive payments under the Note Quality Rewards Scheme.[20]

2.15. Armaguard and Prosegur are 2 of 4 CIT suppliers accredited by the Reserve Bank as Approved Cash Centre Operators. The other 2 Approved Cash Centre Operators are Streamcorp Armoured (**Streamcorp**) and Brink's Global Services (**Brink's**):

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14 Reserve Bank of Australia submission, 28 October 2022, p 3.

15 Reserve Bank of Australia, Banknote Distribution Arrangements Issues paper, November 2021, p 11.

16 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 68.

17 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 68.

18 Reserve Bank of Australia submission, 28 October 2022, p 4.

19 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 71.

20 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 71.

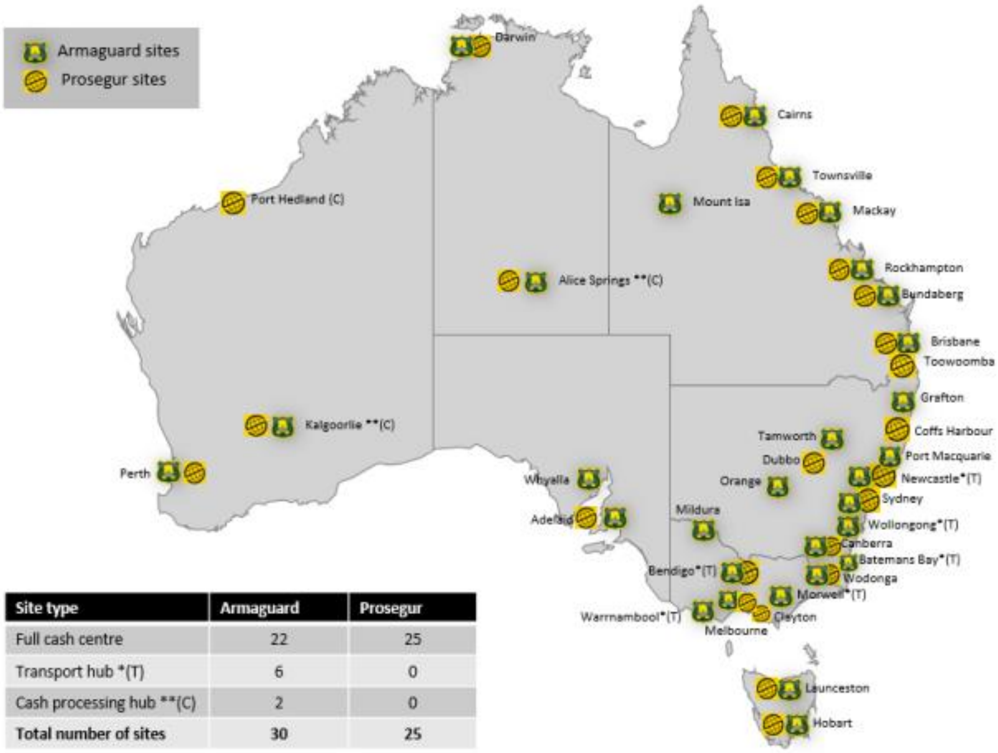
- Streamcorp has an Approved Cash Centre and is a participant in a Banknote Distribution Agreement with a major financial institution.[21] Streamcorp provides armoured and soft-skin (non-armoured with fewer security features) CIT services in Victoria. Streamcorp operates 1 Approved Cash Centre in Melbourne.[22]
- Brink's is a global logistics and security company. Brink's no longer supplies CIT services in Australia (after it sold its CIT contracts in Australia to Armaguard in 2014) but still has Approved Cash Centre Operator status.[23]

Approved Cash Centres

2.16. Armaguard and Prosegur are the only Approved Cash Centre Operators that own and operate a national network of Approved Cash Centres. They submit that their networks of Approved Cash Centres and transport fleets provide the infrastructure that underpins the Australian cash distribution system.[24]

2.17. Armaguard has 24 Approved Cash Centres (as well as 6 transport hubs where no cash processing is undertaken).[25] Prosegur has 24 Approved Cash Centres (as well as 2 transport hubs, where no cash processing is undertaken).[26]

Figure 2: Map of the Applicants' Authorised Cash Centres in Australia



Site type	Armaguard	Prosegur
Full cash centre	22	25
Transport hub *(T)	6	0
Cash processing hub **(C)	2	0
Total number of sites	30	25

Source: Provided by the Applicants; Armaguard and Prosegur application for Merger Authorisation, p 141.[27]

21 Streamcorp submission, 26 October 2022, p 1.

22 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 79.

23 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 79.

24 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 73.

25 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 78

26 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 78.

27 The ACCC notes the discrepancy between the number of Prosegur Approved Cash Centres listed in paragraph 2.17 (24 Approved Cash Centres) and the number listed in figure 1 (25 Approved Cash Centres). Both figures were provided by the Applicants with their application.

Non-Approved Cash Centre Operators

2.18. There are many smaller CIT suppliers that are involved in retail cash distribution. These approximately 200 non-Approved Cash Centre Operator CIT suppliers tend to provide lower value, covert services that frequently use soft skin rather than armoured vehicles.[28]

2.19. Non-Approved Cash Centre Operator CIT suppliers include Authentic Security, Border Security Services, Amalgamated Cash Services, Secure Cash, Hillside Security, Knightguard, Security Specialists Australia Wide Security Services, and Commander Security.[29]

CIT services

2.20. CIT services are utilised by a wide variety of customers across diverse industries. Broadly there are 3 classes of CIT services.

Integrated wholesale and retail CIT services

2.21. The Applicants submit there is a national market for the supply of integrated end-to-end wholesale and retail CIT services. The Major Banks are the only customers that require these services because they are the only institutions that have wholesale arrangements with the Reserve Bank (through the Banknote Distribution Agreements).[30] That is, the Major Banks are the only customers that require the wholesale component of this service – the bulk movement of banknotes between the Reserve Bank and Approved Cash Centres, banknote fitness sorting, and the daily reporting of verified cash holdings.

2.22. The Applicants estimate their share of the supply of these services to be greater than 90%.[31] Armaguard has wholesale (and retail) distribution agreements with CBA, ANZ and NAB. Prosegur has an agreement with Westpac.[32]

Full-service retail CIT services

2.23. The Applicants submit that there may be a national market for the supply of CIT services to retail customers who require a full-service solution of cash transport, processing, and administration.[33]

2.24. The Applicants submit that within this retail level customer group there is a functional distinction between customers requiring a combined solution involving cash transport, processing and administration services, and customers requiring only cash transport services. They submit that this area of overlap includes customers acquiring a full-service retail CIT solution encompassing any combination of services such as change float preparation, armoured or discreet cash transport, cash processing, cash management, cash funding and reconciliation, smart safe device management, reconciliation services and first line maintenance ATM services.[34]

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28 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 79.

29 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 81.

30 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 106.

31 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 106.

32 Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 82-83.

33 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 107.

34 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 107.

2.25. The Applicants estimate that their share of supply of CIT services to these customers is greater than 85%.[35] Other suppliers include Authentic Security and Streamcorp.

2.26. The customer base for these services tends to be larger retailers such as Woolworths, Coles and Australia Post, as well as banks (other than the Major Banks who typically acquire these services as part on an integrated wholesale and retail package as noted above), and independent ATM operators.

Cash-transport-only services

2.27. The Applicants submit that there is a national market for the supply of cash-transport-only services to retail customers who only require cash transport between their location(s) and, for example, a bank branch. Customers acquiring cash-transport-only services are typically retail customers (such as small to medium sized retailers and hospitality venues) that work with smaller values of cash.[36]

2.28. The Applicants submit that in this possible market they face competition from over 200 suppliers. The Applicants submit that Prosegur holds the second largest share of services in this market with a share between 20% and 25%, behind Security Specialists, whilst Armaguard holds a significantly smaller share.[37]

Relevant areas of competition for the ACCC's preliminary assessment

2.29. The ACCC has not reached a concluded view on market definition. In relation to CIT services, the ACCC's competition assessment in section 3 of this statement of preliminary views considers the following areas of competition, where the Applicants provide CIT services:

- integrated wholesale and retail CIT services,
- full-service retail CIT services, and
- cash-transport-only CIT services.

Non-CIT services

2.30. Armaguard and Prosegur also both supply a range of other services, including operating ATM networks (ATM deployment to merchants and cash withdrawals for the public), ATM maintenance services, and precious cargo services. These services are collectively referred to in this statement of preliminary views as non-CIT services. Each is described below.

ATM services

2.31. The Australian ATM system consists of 2 distinct types of ATM owners: financial institutions and independent ATM operators who operate standalone ATM networks.

2.32. Many financial institutions operate their own branded ATM networks. They usually offer a free service for their own cardholders. Bank ATMs are commonly housed at a bank branch ('on site') or in other locations such as high streets or shopping centres ('off site').[38] The Reserve Bank has noted that recently several banks sold parts or all of their off-branch ATMs to third-party operators (generally CIT companies) which are

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[35] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 107.

[36] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 108.

[37] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 108.

[38] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 110.

looking to operate these ATM fleets on a utility basis where banks can pay for their customers to access the machines on a fee-free basis.[39]

2.33. Independent deployers operate standalone ATM networks that are typically located on high streets and in service stations, gaming venues, pubs, supermarkets, restaurants, shopping centres and event venues. Independent ATM deployers typically charge a fee, paid by the cardholder or their financial institution.

2.34. AusPayNet estimates that as of September 2022 there were approximately 25,200 ATMs in Australia, a steady decline from the peak of approximately 32,000 ATMs in 2016.[40]

2.35. RBB Economics, in its report provided by the Applicants with their application for authorisation, identifies additional cash withdrawal facilities that consumers can use. 1 example is Australia Post's Bank@Post, which enables customers of over 80 banks and financial institutions, including CBA, Westpac and NAB, to withdraw cash at a participating local post office.[41] There are also informal cash withdrawal facilities offered by some retailers including the major supermarkets that enable customers to withdraw cash at the point of sale.[42]

The Applicants' ATM networks

2.36. Armaguard and Prosegur both operate independent (non-bank) ATM networks in metropolitan and regional locations across Australia:

- As at June 2022, Armaguard owned and deployed 1,794 ATMs as part of its atmx by Armaguard network.[43]
- As at 25 January 2022, Prosegur owned and deployed 731 ATMs through its Precinct network. As at 7 April 2022, Prosegur also owned and deployed 151 ATMs through its Kwikcash network. Prosegur also operated 35 white label ATMs as at 12 August 2022.[44]

2.37. Other suppliers of ATM networks include the Major Banks and smaller financial institutions, as well as independent operators such as Cardtronics (owned by NCR Corporation and has approximately 6,623 ATMs), Next Payments (approximately 3,800 ATMs) and Banktech (approximately 2,500 ATMs).[45]

2.38. These independent operators compete with Armaguard and Prosegur to deploy ATMs in locations such as those described at paragraph 2.33. In some cases, they are also customers of Armaguard and/or Prosegur in relation to CIT services necessary to support their ATM operations.

ATM maintenance services

2.39. ATM maintenance services include:

- First line maintenance services – processing and fixing immediate operational faults such as cash and card reader jams, general cleaning of ATMs and,

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[39] Reserve Bank of Australia, Banknote Distribution Arrangements Issues paper, November 2021, p 22.

[40] Australian Payments Network, Device Statistics, accessed 3 November 2022.

[41] Armaguard and Prosegur application for merger authorisation: Annexure 31 - RBB Economics Expert Report, 27 September 2022, p 59; Australia Post, Bank@Post, accessed 3 November 2022

[42] Armaguard and Prosegur application for merger authorisation: Annexure 31 - RBB Economics Expert Report, 27 September 2022, p 59.

[43] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 110.

[44] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 111.

[45] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 112.

replacing ATM marketing panels. The Applicants submit that the supply of first line maintenance services is relatively straightforward and do not require specialised expertise. They submit that while the banks may carry out first line maintenance services for onsite ATMs themselves, they typically outsource the supply of these services to offsite ATMs. Armaguard and Prosegur both supply first line maintenance services.[46]

- Second line maintenance services – more complex maintenance work, for example repairing and replacing parts, updating software and conducting diagnostics on complexed issues. The Applicants submit that Armaguard holds a share of between 30%-40% of these customers, behind the much larger share of NCR/Cardtronics. They submit that Prosegur's share of customers is de minimis.[47]
- Complete line maintenance services – end-to-end ATM maintenance package from a single point of contact. Armaguard supplies these services but Prosegur does not.[48]

Precious cargo services

2.40. Precious cargo services include the transportation and storage of valuable goods that are not Australian cash, such as diamond and jewellery, bullion, high-end luxury goods, foreign banknotes, and medicinal cannabis.[49] Armaguard and Prosegur each supply precious cargo services through their existing network of Approved Cash Centres. The Applicants submit there is a national market for the supply of full-service precious cargo transportation solutions and estimate that each of them holds a market share of less than 10%.[50] Other suppliers include Brink's and Ferrari Logistics.

Relevant areas of competition for the ACCC's preliminary assessment

2.41. As noted above, the ACCC has not reached a concluded view on market definition. In relation to non-CIT services, the ACCC's competition assessment in section 3 of this statement of preliminary views considers the following areas of competition:

(a) supply of ATM services, being the supply of cash withdrawal facilities, ATM deployment services to merchants, and ATM access arrangements to financial institutions

(b) supply of ATM maintenance services, being the supply of first line maintenance, second line (specialist) maintenance and complete line maintenance services

(c) supply of full-service precious cargo solutions.

Industry trends – decline in cash as a method of payment

2.42. The Reserve Bank's Consumer Payments Survey shows that the share of total retail payments made with cash fell from 69% in 2007 to 27% in 2019 (see figure 3 below).[51] This trend has been accelerated by the COVID-19 pandemic.[52]

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46 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 113.

47 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 114.

48 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 113.

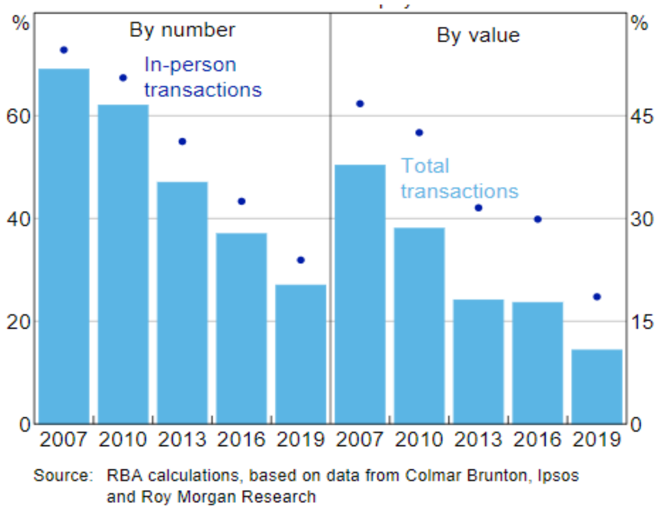
49 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 115.

50 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 116.

51 Reserve Bank of Australia submission, 28 October 2022, p 1.

52 Reserve Bank of Australia submission, 28 October 2022, p 4.

Figure 3: Cash payments – share of consumer payments



Source: Reserve Bank calculations, based on data from Colmar Brunton, Ipsos and Roy Morgan Research[53]

2.43. While the share of transactions made with cash is declining, cash remains an important means of payment for some members of the community. In the 2019 Consumer Payment Survey, around 15% of people used cash for 80% or more of their in-person transactions. These high cash users are more likely to be older, have lower household income, live in regional areas, and/or have limited internet access. The majority of these high cash users indicated that they would suffer a major inconvenience or genuine hardship if they could no longer withdraw cash or if retailers stopped accepting cash.[54]

2.44. Cash is also used in emergency situations such as natural disasters where there may be issues accessing electronic payment methods. The Reserve Bank notes that cash is also used as a store of wealth.[55]

2.45. The Reserve Bank submits that despite the decline in transactional cash use, the value of banknotes on issue has continued to grow and is around its peak as a share of GDP (see figure 4 below). The Reserve Bank submits that this likely reflects the use of cash for precautionary and/or store-of-wealth purposes.

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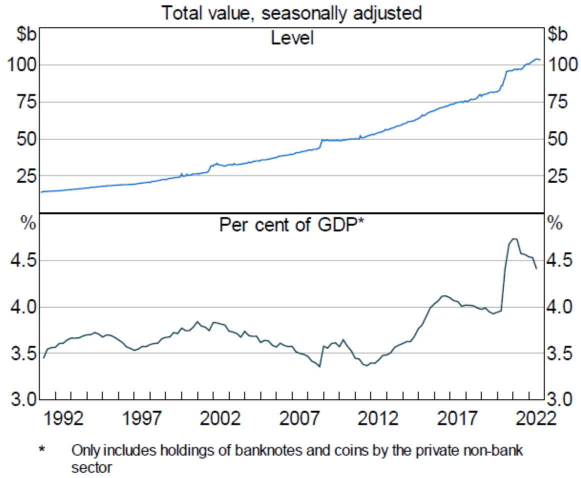
53 Reserve Bank of Australia submission, 28 October 2022, p 2.

54 Reserve Bank of Australia, Review of Banknote Distribution Arrangements: Issues Paper, November 2021, p 4.

55 Reserve Bank of Australia submission, 28 October 2022, p 2.

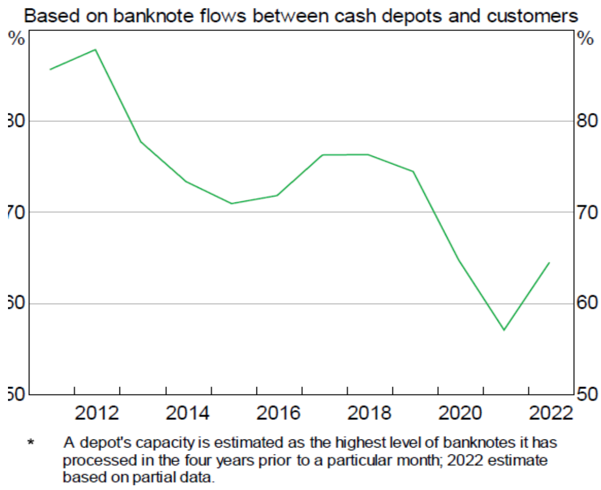
Figure 4: Banknotes in circulation



Source: RBA submission, 28 October 2022 p 2.

2.46. The Reserve Bank submits that the decline in cash transactions has reduced the volume of banknotes being transported and processed, contributing to an underutilisation of cash distribution infrastructure and an increase in the average cost of transporting and processing wholesale quantities of banknotes. The Reserve Bank estimates wholesale cash distribution infrastructure capacity utilisation has declined substantially over the past decade, to be around 65%. The Reserve Bank submits that the environment of declining volumes of banknotes being transported and processed is placing significant financial pressure on industry participants.[56]

Figure 5: Annual depot capacity utilisation



Source: Reserve Bank submission, 28 October 2022 p 11.

2.47. The Reserve Bank submits that low and falling capacity utilisation for banknote processing implies that for some regions and in some time periods, total demand for banknote processing services could have been met by significantly fewer CIT depots. Accordingly, there are likely to be efficiency gains from, for example, a reduced number of CIT depots.[57]

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56 Reserve Bank of Australia submission, 28 October 2022, p 4.

57 Reserve Bank of Australia submission, 28 October 2022, p 10.

3. ACCC's preliminary views on the competitive effects of the Proposed Transaction

3.1. This section outlines the ACCC's preliminary views about the likely impact on competition of a transition from there being 2 major suppliers of CIT services, as is currently the case, to 1.

3.2. First, it outlines the ACCC's preliminary view that competition concerns are likely to arise in the following three areas of competition:

- the supply of integrated wholesale and retail CIT services to the Major Banks
- the supply of full-service retail CIT services for retail customers (i.e., both transportation and processing services)
- the supply of some types of ATM services where vertical issues may arise (i.e., where moving from 2 major suppliers of CIT services may create opportunities and incentives for the Applicants to foreclose other suppliers).

3.3. Following this, the section outlines the ACCC's preliminary views about the relevant counterfactual(s). In particular, it addresses the likelihood that there will be 1 major supplier of CIT services, or more than 1, with or without the Proposed Transaction, as the Applicants submit.

3.4. Lastly, it outlines the ACCC's preliminary views about other areas of competition where the ACCC considers that moving from 2 major suppliers of CIT services to 1 is less likely to raise competition concerns. These are:

- cash-transport-only CIT services
- ATM services and ATM maintance services
- precious cargo transportation services.

Areas of competition where competition concerns are likely to arise

3.5. The ACCC's preliminary view is that competition concerns are likely to arise in the following areas of competition:

- integrated wholesale and retail CIT services for the Major Banks
- full-service retail CIT services for retail customers (i.e., both transportation and processing services)
- the supply of some types of ATM services where a lessening of competition for the supply of CIT services may create opportunities and incentives for the Applicants to foreclose other suppliers.

Integrated wholesale and retail CIT services' and 'full-service retail CIT services

Significant consolidation

3.6. As noted in paragraph 2.22 above, for the **supply of integrated wholesale and retail CIT services**, the Applicants' estimated combined market share is greater than 90%.[58] The Proposed Transaction will combine the 2 largest suppliers of integrated

[58] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 106.

wholesale and retail CIT services in an already concentrated area of competition. It will also combine the only 2 suppliers that offer national coverage.

3.7. Similarly, for the **supply of CIT services to retail customers who require a full-service solution** (i.e., both cash transportation and processing services), the Applicants' estimated combined market share is greater than 85%.[59] The Proposed Transaction will combine the 2 largest suppliers of full-service retail CIT services in an already concentrated area of competition. It will also combine the only 2 suppliers that offer national coverage.

Removal of closest competitor and lack of substitutes

3.8. In effect, no rivals who are able to provide services on the scale that the Applicants do will remain in either of these areas of competition post-merger (i.e., merger to monopoly). In the absence of effective competitive constraints from other sources, such as future entrants or countervailing power, a merger that leaves no rivals to the merged entity will likely result in unilateral effects amounting to a substantial lessening of competition.[60]

3.9. Customers of CIT services, including banks and retailers, raised concerns that the Applicants are each other's closest competitors in the provision of CIT services and that the Proposed Transaction would reduce the number of major suppliers from 2 to one. Customers also raised concerns that no other suppliers can match the Applicants' offerings without significant investment and substantive changes. They consider that in the absence of competitive constraints, the Proposed Transaction could lead to an increase in the price of CIT services and a decrease in service levels.[61]Woolworths Group also refers to Prosegur as being a 'disruptor' since it began providing CIT services in Australia.[62]

3.10. Additionally, Authentic Security submits that it relies on the Applicants for access to the Westpac cash facility and that any changes would cause significant complications.[63] Commander Security also notes that the merged entity would be able to limit competitors' effectiveness.[64]

3.11. The Applicants submit that the Proposed Transaction will not cause a substantial lessening of competition in **either** the supply of integrated wholesale and retail CIT services or the supply of full-service retail CIT services, as the merged entity will be constrained by a number of factors (which are addressed below).

3.12. The ACCC is considering the extent to which removing the competitive constraints the Applicants exert on each other will allow the merged entity to profitably raise prices for integrated wholesale and retail CIT services, and full-service retail CIT services, over a sustained period. The ACCC is also considering whether an increase in market concentration could cause other outcomes, such as lower service quality (for example, pickup frequency, geographic scope of pickup routes and processing times) or decreased innovation.

3.13. The ACCC's preliminary views are that if there is a transition from 2 major suppliers of these CIT services to one major supplier, then:

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59 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 107.

60 ACCC Merger Guidelines, November 2017, p 23.

61 Commonwealth Bank of Australia submission, 28 October 2022, p 7; Bendigo and Adelaide Bank submission, 21 October 2022, p 2; Coles Group Limited submission, 28 October 2022, p 5; Multi-store retail chain submission, 31 October 2022, p 2; Wesfarmers submission, 28 October 2022, p 2.

62 Woolworths Group Limited submission, 11 November 2022, p 2.

63 Authentic Security submission, 20 October 2022, p 4.

64 Commander Security submission, 27 October 2022, p 3.

- the remaining smaller scale suppliers of CIT services would not constrain the sole major supplier, and there would be a lack of substitutes available to large customers who require a breath or scope of service that smaller suppliers are unlikely to be able to provide
- the major supplier would likely have the ability and incentive to substantially raise prices from current levels to customers requiring these services. The Applicants note that prices may rise following the Proposed Transaction, at least in the short-term[65]
- there would likely be a decrease in service quality from current levels, due to the removal of each Applicant's closest competitor. A decrease in service quality could impact CIT processing times, same day/next day processing and pick-up frequency.

The ACCC invites views and further information on:

1. Whether a sole major supplier of CIT services would have the ability and/or incentive to raise prices or decrease the quality of service.
2. The extent to which CIT services are amenable to differentiation on non-price factors, such as service levels and innovative offerings.
3. The extent to which customers would be, or already are, willing to pay higher prices for CIT services that are differentiated based on non-price factors.
4. The extent to which Prosegur acts as a 'disruptor' or innovator, and whether the Proposed Transaction will result in the removal of a vigorous and effective competitor, including:
    a. evidence of past competitive pricing behaviour, both before and after Prosegur's entry into Australia
    b. evidence of innovation and leadership in non-price competition.

ACCC considerations in competition assessment of CIT services

3.14. Two critical further issues in the competition analysis are:

- Whether, as the Applicants submit, there are effective competitive constraints from other sources, such that there would be unlikely to be a substantial lessening of competition. This is discussed directly below.
- Whether, as the Applicants also submit, there is only likely to be a single major supplier of CIT services both with and without the Proposed Transaction (because absent the merger one of them will cease supplying these CIT services, such that any competitive harm would also occur both with and without the Proposed Transaction). This is discussed at paragraphs 3.84 to 3.130.

[65] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 16.

Potential competitive constraints on suppliers of CIT services

Barriers to entry and expansion

(a) The threat of entry or expansion in the supply of integrated wholesale and retail CIT services

The Applicants' views

3.15. The Applicants submit that Streamcorp and Brink's currently have Approved Cash Centre Operator accreditation, which allows them to carry out wholesale CIT work.[66] Currently Streamcorp operates one Approved Cash Centre in Melbourne, and Brink's is not active in the supply of CIT services in Australia.[67]

3.16. The ACCC notes that new entrants seeking to offer integrated wholesale and retail CIT services must be nominated by 1 of the Major Banks and then receive Approved Cash Centre Operator accreditation from the Reserve Bank.[68]

Interested parties' views

3.17. Brink's submits that it has no intention to expand into the CIT industry[69] and Streamcorp does not offer national coverage.[70] Commander Security submits that it has previously attempted to gain a Major Bank's sponsorship for accreditation but was unsuccessful.[71] This suggests that the process to obtain sponsorship for Approved Cash Centre Operator accreditation may be a barrier to providing integrated wholesale and retail CIT services.

3.18. Westpac submits that alternative small CIT suppliers would need to make substantive changes and invest significantly in infrastructure, including becoming Approved Cash Centre Operators, to be feasible substitutes for the Applicants' offerings.[72]

ACCC's preliminary view

3.19. The ACCC is considering whether the threat of new entry or expansion in the supply of integrated wholesale and retail CIT services industry would be likely, timely and sufficient in scope to be an effective constraint on a sole major supplier. No full-service retail CIT suppliers currently have the breadth or scope to constrain an existing supplier. Significant up-front investment (much of it sunk once incurred), administrative effort (including obtaining Approved Cash Centre Operator accreditation) and time would be required to establish a network of sufficient breadth or scope. Further, any such entry would likely have to occur in circumstances where there is a dominant sole supplier who has entered multi-year contracts with almost all major customers.

3.20. For this reason, the ACCC's preliminary view is that the threat of entry by full-service retail CIT suppliers into supplying integrated wholesale and retail CIT services is unlikely to be a significant competitive constraint on a sole supplier.

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66 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 167.

67 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 79.

68 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 82.

69 Brink's Global Services submission, 25 October 2022, p 2.

70 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 79.

71 Commander Security submission, 27 October 2022, p 3.

72 Westpac submission, 31 October 2022, p 1.

(b) The ability of Major Banks to sponsor a new entrant for the supply of integrated wholesale and retail CIT services

The Applicants' views

3.21. The Applicants submit that the Major Banks have the ability to exercise countervailing power by sponsoring the entry or expansion of a large CIT supplier that could displace the merged entity as the sole major supplier of integrated wholesale and retail CIT services. This could occur through the banks supporting the development of a new domestic supplier, or the entry of a foreign supplier, or a roll-up acquisition of smaller suppliers, if the banks value the presence of a second supplier.[73]

3.22. The Applicants submit that this threat is credible, considering the Major Banks' historical conduct. For example:

- the banks entered the Cash Services Australia joint venture (around 2006) to centralise their demand for CIT services
- Westpac sponsored Toll Secure's entry by awarding it a CIT services contract, as well as the expansion of smaller players through awarding them subsets of work.[74]

Interested parties' views

3.23. Several banks submit that, given the costs of infrastructure and the decline in cash usage, the likelihood of a Major Bank sponsoring new entry is low.[75] CBA also submits that the following are additional significant barriers to establishing a competitive service:

- the complexity of managing an armed workforce and obtaining gun licenses
- the ability to become an Approved Cash Centre Operator
- limited opportunities to bid with Major Banks (based on procurement cycles and considering existing supplier relationships).[76]

3.24. Similarly, the Reserve Bank submits that there are likely to be a number of barriers to providing integrated wholesale and retail CIT services, including infrastructure costs, staffing requirements and the broad geographic coverage demanded by customers with national operations.[77]

ACCC's preliminary view

3.25. The ACCC is considering whether Major Bank(s) sponsoring new entry or expansion into integrated wholesale and retail CIT services would be likely, timely and sufficient in scope to be effective. This includes whether it would provide the required coverage and service breadth necessary to constrain the sole supplier.

3.26. As noted above, the ACCC's preliminary view is that the barriers to entry for a new supplier of integrated wholesale and retail CIT services appear high. In particular, significant associated up-front fixed costs, administrative effort and time are required,

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[73] Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 164-165.

[74] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 165.

[75] Commonwealth Bank of Australia submission, 28 October 2022, p 7; Bendigo and Adelaide Bank submission, 21 October 2022, p 2; Bank of Queensland submission, 31 October 2022, p 2.

[76] Commonwealth Bank of Australia submission, 28 October 2022, p 7.

[77] Reserve Bank of Australia submission, 28 October 2022, p 9.

and the existing sole supplier would likely already hold contracts with most major customers.

3.27. The ACCC's preliminary view is that the threat of Major Banks sponsoring new entry is likely to be a weak competitive constraint on a sole supplier. The ACCC considers that sponsorship of a new entrant would only be a commercially feasible alternative for Major Banks, and therefore be likely to impose a competitive constraint on a sole supplier, if it were undertaken jointly by several Major Banks. Further, such a venture might itself require ACCC authorisation, and would need to be pursued in an environment where the sponsoring Major Banks would have likely entered multi-year contracts with the sole supplier.

3.28. The ACCC does consider, however, that sponsorship or support from one or more Major Banks (such as nomination for Approved Cash Centre Operator status or awarding of a key contract) would make entry easier compared to an existing full-service retail CIT supplier or cash-transport-only CIT supplier seeking to expand without such support.

(c) The threat of entry and expansion in the supply of full-service retail CIT services

The Applicants' views

3.29. In relation to full-service retail CIT services, the Applicants submit that they will likely be constrained from increasing prices by the threat of:

- expansion from existing full-service retail CIT suppliers, some of whom (such as Authentic Security) are well placed to expand in response to price increases by the merged entity.[78]
- entry from cash-transport-only CIT suppliers not currently providing cash processing and administration services (i.e., expansion to become full-service retail CIT suppliers). They submit that the over 200 existing cash-transport-only CIT suppliers are well placed to begin supplying cash processing and administration services in response to a price increase by the merged entity.[79]

3.30. The Applicants submit that barriers to providing full-service retail CIT services are low because:

- approved Cash Centre Operator accreditation is not required
- such services typically involve smaller volumes of cash which require less investment in processing centres and infrastructure
- existing cash-transport-only CIT suppliers can also leverage existing customer relationships into the full-service retail CIT market.[80]

3.31. Specifically, Prosegur submits that as a result of the decline in cash use many of the collections and deliveries performed by its armoured trucks fall below the Australian Security Industry Association Limited (**ASIAL**) Cash-in-Transit Code of Practice threshold for soft-skin or courier cash movements and, as such, can be safely performed using soft-skin or courier vehicles.[81] The ASIAL Cash-in-Transit Code of Practice is a voluntary code which provides guidance on minimum standards of safety for conducting CIT services.

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78 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 166.

79 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 167.

80 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 167.

81 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 167.

3.32. Conversely, the RBB report states that:

- suppliers of cash-transport-only CIT services that do not have cash processing facilities could not feasibly supply CIT services to larger retail CIT customers without significant investment
- if the prices for full-service retail CIT services rise, it is unlikely that barriers to entry will be low enough to encourage cash-transport-only CIT suppliers to expand into full-service retail CIT services.[82]

Interested parties' views

3.33. Several interested parties submit that the high fixed costs associated with obtaining the infrastructure and scale (including cash processing centres, vehicle fleets and skilled staff) necessary to effectively compete with the Applicants in the supply of full-service retail CIT services are likely to present barriers to entry for new entrants and existing smaller suppliers.[83]

3.34. Woolworths submits that there are high barriers to entry or expansion for supplying full-service retail CIT services. These barriers include funding to secure sufficient volumes of cash (as large retailers require substantial floats of cash), lead time to build a sufficient fleet of armoured vehicles and fit out appropriate facilities, lack of skilled and licensed labour, and investment in systems to manage resources and assets and which integrate with retailers' smart equipment at stores.[84] It also submits that conditions have changed since Prosegur commenced providing CIT services in Australia, as at that time there was more demand for CIT services and there were existing substantial Australian CIT businesses that Prosegur was able to acquire (such as Chubb Security and Toll Secure).[85]

ACCC's preliminary view

3.35. The ACCC's preliminary view is that barriers to providing full-service retail CIT services on the breadth or scope required by major customers are high. Both existing (much smaller) full-service participants considering expansion as well as new entrants currently active in cash-transport-only services would need to incur substantial up-front fixed costs (much of it sunk once incurred) to achieve the breadth or scope necessary to offer an effective competitive constraint against a dominant sole major supplier. Further, that sole supplier would likely have entered into multi-year contracts with all major customers. As such, the threat of entry or expansion into the supply of full-service retail CIT services is unlikely to significantly constrain a sole supplier.

(d) The threat of retailers insourcing their full-service retail CIT services

The Applicants' views

3.36. In relation to **full-service retail CIT services**, the Applicants submit that the threat of retailers insourcing their CIT services will continue to constrain them, in cases where retailers choose to save costs by transporting and processing cash themselves. The Applicants submit that a large share of businesses in Australia likely insource their

[82] Armaguard and Prosegur application for merger authorisation: Annexure 31 - RBB Economics Expert Report, 27 September 2022, pp 52-53.

[83] Australian Hotels Association submission, 28 October 2022, p 3; NCR Australia Group submission, p 22; Bendigo and Adelaide Bank submission, 21 October 2022, p 2.

[84] Woolworths Group Limited submission, 11 November 2022, p 3.

[85] Woolworths Group Limited submission, 11 November 2022, p 4.

CIT services, and as the use of cash in the economy declines, more retailers could choose to do so.[86]

Interested parties' views

3.37. A multi-store retail chain, Coles, Woolworths and Wesfarmers, submit that they do not consider insourcing cash delivery to be a viable option (financially or otherwise). They cite a number of factors, including:

- the capital required to procure the infrastructure and equipment (e.g., fleet of armoured vehicles)
- the increased safety and security risks for their teams
- the complexity and risk inherent in CIT services
- their lack of expertise.[87]

3.38. Coles additionally notes the increased costs associated with handling a cash delivery team and the operational challenges arising from outsourcing to third party suppliers.[88]

ACCC's preliminary view

3.39. The ACCC's preliminary view is that, of retailers who acquire full-service retail CIT services (i.e., excluding small retailers or hospitality venues who do not use third-party cash processing and administration, which are discussed at paragraphs 3.137 to 3.139 below), only larger retailers could potentially impose an effective competitive constraint on a sole major supplier through the threat of insourcing.

3.40. As identified above in the discussion about barriers to entry/expansion into full-service retail CIT services, an effective competitive constraint would require significant investment (or a credible threat to make significant investment), given the scale and/or scope involved and the specialised skills and equipment needed to insource these services. For example, the volume of cash handled by a large retailer would have substantial safety and security implications and hence the fixed and sunk costs of purchasing processing equipment, armoured vehicles and training staff, would be high.

3.41. The potential for large retailers to insource their CIT services would impose a competitive constraint on a sole supplier only to the extent that it would prevent full-service retail CIT prices from rising to the extremely high levels necessary for retailers to recover the costs of insourcing.

3.42. Even large national retailers would likely individually lack the demand to insource full-service retail CIT services at an efficient scale and scope. If a large national retailer could only insource full-service retail CIT services at a significantly higher cost than what they currently pay for CIT services, a sole supplier of full-service retail CIT services could set its prices up to that level. Hence, the ACCC's preliminary view is that the threat of retail customers insourcing their CIT services only provides a limited competitive constraint.

86 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 166.

87 A multi-store retail chain submission, 31 October 2022, p 2; Coles Group Limited submission, 28 October 2022, p 5; Wesfarmers submission, 28 October 2022, p 3; Woolworths Group Limited submission,, 11 November 2022, p 3.

88 Coles Group Limited submission, 28 October 2022, p 5.

The ACCC invites views on barriers to entry or expansion into either the supply of integrated wholesale and retail CIT services and/or the supply of full-service retail CIT services, including:

5. Whether new entry or expansion, insourcing by customers, or sponsorship by the Major Banks would be (i) likely, (ii) timely, and (iii) sufficient in scope and nature, to effectively constrain a sole supplier from substantially raising prices or lowering quality or innovation. Specifically:
    a. In relation to likelihood, what are the key factors that parties consider in determining whether entry/expansion/insourcing/sponsoring is worthwhile? For example:
        i. What costs would entrants need to incur and how irrecoverable or 'sunk' would they be if the decision to enter were reversed?
        ii. How high would CIT prices need to rise to justify entry, or what qualitative factors (such as service frequency) would need to be lost? Do parties consider that prices are likely to rise to such levels, or that those factors are likely to be lost following the transaction?
    b. In relation to timeliness, how long would it take for a new entrant to start supplying integrated wholesale and retail CIT services, or full-service retail CIT services of sufficient breadth or scope to meet customers' needs?
6. Any additional barriers not raised in this statement of preliminary views, or reasons why barriers may not be as high as contemplated in this statement of preliminary views.

The ability of banks to restrict access to cash and retailers to not accept cash in the face of declining cash use

The Applicants' views

3.43. The Applicants submit that a key constraint on the merged entity's ability and incentives to raise prices for integrated wholesale and retail CIT and full-service retail CIT services is the ability of customers (e.g., banks and retailers) to respond to an excessive price increase by deciding not to accept cash payments or limiting their acceptance of cash.[89]

3.44. The Applicants submit that banks are already doing this by reducing the number of locations from which consumers can withdraw cash and by opting into shared facilities such as Bank@Post Services.[90]

3.45. They further submit that retailers are already increasingly promoting the use of cards instore and increasing use of card-only checkouts.[91]

3.46. The Applicants refer to analysis by RBB Economics which indicates that, outside of American Express, cash is the most expensive payment method for retailers to accept at transaction values over $15. Below that level, cash is cheaper than EFTPOS (but still more expensive than MasterCard and Visa debit cards).[92] The Applicants submit that 'CIT costs may account for as much as one-third of large retailers' cash acceptance costs.'[93]

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[89] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 158.

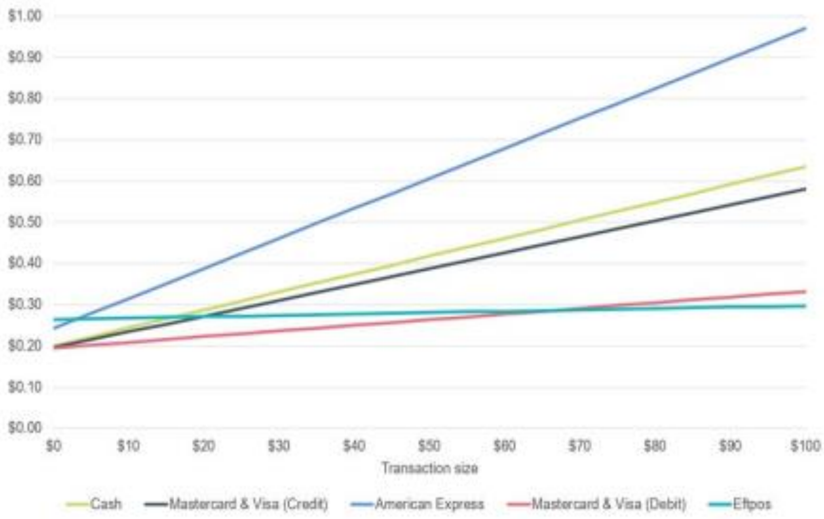
[90] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 159.

[91] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 128.

[92] Armaguard and Prosegur application for merger authorisation, Figure 31, p 160.

[93] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 161.

Figure 6: Merchant's acceptance costs by transaction value (2021)



Source: Application, Figure 31, p 160, RBB Economics report, Figure 15, p 97

3.47. The Applicants submit that, for these reasons, the merged entity will have an incentive to promote cash use by keeping CIT prices low to arrest the decline in cash.[94]

Interested parties' views

3.48. The Reserve Bank submits that despite lower cash value transactions, cash is expected to remain an important means of payment for certain sectors of the community, an important back-up for electronic payment methods and is also used for store of wealth purposes.[95] The Applicants support this conclusion.[96]

3.49. NAB submits that its responsibility is to maintain multiple payment channels and support financial inclusion for all customers.[97]

3.50. Several retailers submit that they will continue to offer cash to meet the needs and preferences of their customers[98] and that decisions around payment methods are largely motivated by consumer preferences rather than the price for CIT services.[99]

ACCC's preliminary view

3.51. The ACCC considers that, taken at face value, the RBB Economics' analysis of merchant acceptance costs, along with the Applicants' submission that CIT costs may account for up to one-third of large retailers' cash handling costs, suggests that a sole CIT supplier would have substantial leeway to profitably raise CIT prices without

94 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 158.

95 Reserve Bank of Australia submission, 28 October 2022, pp 1-2.

96 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 61.

97 National Australia Bank submission, 28 October 2022, p 5.

98 Coles Group Limited submission, 28 October 2022, p 2; Woolworths Group Limited submission, 11 November 2022, pp 4-5; A multi-store retail chain submission, 31 October 2022, p 3.

99 Woolworths Group Limited submission, 11 November 2022, p 5; Wesfarmers submission, 28 October 2022, p 3.

retailers significantly increasing their adoption of measures to discourage or reduce cash use (such as those outlined by the Applicants).[100]

3.52. While cash use has declined in recent decades and may continue to decline in the future, the ACCC's preliminary view is that this trend is and would already be reflected in retailers' past, current and future decisions regarding their terms of acceptance of cash and other payment methods. The ACCC does not at this stage consider that even a substantial increase in CIT prices would cause a large enough shift in the trajectory of these decisions to make that increase unprofitable for a sole major supplier of full-service retail CIT services.

3.53. The ACCC's preliminary view is therefore that the degree of constraint posed by this factor is likely to be limited. While for many consumers availability of cash as a payment option may not be a significant factor in their decisions about which businesses to frequent, for a significant proportion of the population it still is. The price of CIT services would need to rise to a level where the cost of these services outweighed the cost to the business of potentially losing these consumers before restricting access to cash or not accepting it would impose a meaningful competitive constraint on further price rises for CIT services.

7. The ACCC invites views and further information on the extent to which the ability of banks to restrict access to cash and/or of retailers to not accept cash is likely to impose a constraint on a sole supplier of integrated wholesale and retail CIT services, or full-service retail CIT services.

The bargaining power of large CIT customers

The Applicants' views

3.54. The Applicants submit that large CIT customers have bargaining power which will constrain the merged entity. They submit that the ACCC has previously acknowledged that large CIT customers have bargaining power.[101] They note that because there are few large customers and cash usage is declining, large customers have successfully negotiated significant discounts.[102]

Interested parties' views

3.55. Interested parties submit mixed views regarding the ability of large customers to exercise significant bargaining power.

3.56. Large customers, such as CBA and Coles, submit that they are unable to exercise significant bargaining power due to inelastic demand for the relevant services and a lack of competitive alternative suppliers.[103] Bendigo and Adelaide Bank, Coles, Woolworths and Wesfarmers submit that the Proposed Transaction would reduce or leave them with minimal bargaining power because they will be dealing with 1 monopolist supplier of CIT services.[104] They submit that a lack of alternative suppliers

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[100] For example, based on the RBB Economics analysis and the Applicants' submission that CIT costs may account for up to one-third of large retailers' cash handling costs, if hypothetically, a sole CIT supplier were to raise full-service retail CIT prices by 30%, large retailers' cash handling costs would rise by approximately 10%. That would represent approximately $0.03 for a $20 transaction (from $0.29 to $0.32), $0.04 for a $50 transaction (from $0.42 to $0.46) and $0.06 for a $100 transaction (from $0.64 to $0.70). It is not clear that even such very substantial increases in CIT prices would induce a response from retailers significantly beyond what they may pursue absent the transaction.

[101] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 164.

[102] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 12, p 89.

[103] Commonwealth Bank of Australia submission, 28 October 2022, p 9: Coles Group Limited submission, 28 October 2022, p 5.

[104] Bendigo and Adelaide Bank submission, 21 October 2022, p 2; Coles Group Limited submission, 28 October 2022, p 5; Woolworths Group Limited submission, 11 November 2022, p 4; Wesfarmers submission, 28 October 2022, p 2.

would mean that CIT customers have less ability to credibly threaten to switch suppliers when renegotiating contracts.

3.57. Conversely, Diebold Nixdorf submits that some customers are likely to have bargaining power due to their size and scale.[105]

ACCC's preliminary view

3.58. The ACCC's preliminary view is that some larger customers do appear to have bargaining power in the negotiation and procurement of CIT services, as reflected in the intense price competition that is currently occurring for these services. In particular, the Applicants submit that they are currently competing vigorously for the volume of business that these large customers provide so as to provide scale to cover their fixed costs.[106]

3.59. However, a transition from 2 suppliers of CIT services to 1 supplier would remove the alternative option for these customers and competition between the Applicants to win these customers would be lost.

3.60. Further, as noted above, for a significant proportion of the population availability of cash as a payment option is a significant factor in their decisions about which businesses to frequent.

3.61. In this scenario (subject to the degree to which the other factors considered in this section provide a constraint), customers are unlikely to have significant bargaining power, but would be limited to the service offering of the remaining supplier.

8. The ACCC invites further views on the strength of bargaining power possessed by large retail CIT customers and the extent to which those customers could exercise any bargaining power to secure better terms in CIT service if there was only 1 major supplier of CIT services.

Existing contractual obligations constrain pricing changes

The Applicants' views

3.62. The Applicants submit that existing contractual obligations constrain pricing changes with or without the Proposed Transaction during the contract term; whereas renegotiation of contracts will become necessary for many customers if either Applicant is forced to exit in the near future.

Interested parties' views

3.63. Bendigo and Adelaide Bank submits that the effect of current competitively negotiated contracts will be relatively short-lived, and as RBB suggests, new contracts can expect to be struck at higher prices.[107]

ACCC's preliminary view

3.64. The ACCC's preliminary view is that the Applicants' existing contractual obligations are likely to constrain pricing changes during their terms. These contracts have

105 Diebold Nixdorf submission, 26 October 2022, p 4.

106 Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 118-9.

107 Bendigo and Adelaide Bank submission, 21 October 2022, p 3.

varying durations. As each contract expires the terms of the contract will no longer constrain pricing changes.

3.65. The ACCC does consider that if 1 of the Applicants was to cease supplying CIT services, this would necessitate some customers entering into new contracts sooner than if the Applicants merged. This is because, for these customers, existing contracts are likely to provide a constraint on pricing for a longer period if the Applicants merge than if 1 of them ceases supplying CIT services.

The threat of Reserve Bank of Australia intervention or regulation

The Applicants' views

3.66. The Applicants submit that the merged entity will also be constrained by the threat of Reserve Bank intervention or regulation in the cash distribution system if they were to increase CIT prices significantly. Specifically, they submit that the Reserve Bank could designate the cash distribution system as a payment system under section 11 of the *Payment Systems (Regulation) Act 1998* (Cth) (**PSRA**), which would allow the Reserve Bank to impose standards on the merged entity, including for the potential regulation of prices.[108]

*Interested part*ies' views

3.67. The Reserve Bank submits that it does not consider that CIT services (the physical transportation of banknotes on behalf of the owner of those banknotes between different locations in Australia and the associated cash processing and quality sorting processes) are within the scope of the PSRA, as currently drafted.[109]

ACCC's preliminary view

3.68. In light of the Reserve Bank's submission, the ACCC's preliminary view is that a sole supplier is unlikely to be constrained by the threat of Reserve Bank intervention or regulation in the cash distribution system if CIT prices increased significantly.

Conclusions

3.69. For the reasons discussed above, the ACCC's preliminary view is that the potential constraints identified by the Applicants would be unlikely to significantly constrain a single major supplier of integrated wholesale and retail CIT services and full-service retail CIT services.

3.70. However, the Applicants submit that there will be 1 major supplier of CIT services rather than 2 with or without the Proposed Transaction. This is a key consideration in determining whether any competitive harm caused by a move from 2 to 1 major suppliers of CIT services is a consequence of the Proposed Transaction or would occur both with and without the Proposed Transaction. This is discussed in the ACCC's consideration of the relevant counterfactual(s) at paragraphs 3.84 to 3.130 below.

ATM and ATM maintenance services (vertical issues)

3.71. This section outlines the ACCC's preliminary views on whether a move from 2 major suppliers of CIT services to 1 supplier would increase the ability of the merged entity to foreclose competitors in areas of competition including the supply of:

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108 Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 163-164.

109 Reserve Bank of Australia submission, 28 October 2022, p 10.

- ATM services, being the supply of cash withdrawal facilities, ATM deployment services to merchants, and ATM access arrangements to financial institutions (‘ATM as a service’)
- ATM maintenance services the supply of first line maintenance, second line (specialist) maintenance and complete line maintenance services.

3.72. The ACCC is considering this issue because:

- the supply of CIT services appears to be an important input to the supply of the above services
- the Applicants supply both CIT services and ATM and ATM maintenance services

3.73. The Applicants did not discuss any prospect of vertical competition concerns associated with the Proposed Transaction in their submission supporting the application.

Interested parties’ views

3.74. Independent ATM deployers are reliant on CIT suppliers for cash provision. Several interested parties raised concerns about the incentives and ability of the merged entity to foreclose competitors (i.e., preventing or impeding a rival firm from competing[110]) in the supply of services downstream and ‘adjacent’ to the supply of CIT services.

3.75. In particular, the Applicants’ 2 major competitors in ATM services, NCR Australia Group[111] and Next Payments,[112] submit that by creating a monopoly supplier of CIT services with substantial interests in activities that depend on the provision of CIT services, the Proposed Transaction is likely to result in anticompetitive foreclosure conduct by the merged entity. Both stakeholders’ submissions referred to and were accompanied by expert reports in support of their submissions.[113]

3.76. NCR Australia Group considers that the merged entity would have substantial interests in ATM services and ATM maintenance services, which are downstream markets that rely on access to CIT services.[114] ATM deployment services to merchants and ATM access arrangements to financial institutions are ‘downstream’ markets in that they require CIT services as an input, whereas NCR Australia Group submits that the supply of ATM maintenance services is an ‘adjacent’ market because financial institution customers increasingly seek to procure these services in combination with CIT services.

3.77. For example, NCR Australia Group submits that Armaguard’s ability to bundle CIT services with specialist ATM maintenance services provides it with a material advantage over NCR Australia Group; and while NCR Australia Group can currently

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110 ACCC Merger Guidelines, November 2017, p 63.

111 NCR Australia Group submission, 28 October 2022. p 35 and sections 10 and 11 more generally.

112 Next Payments submission, 31 October 2022, section 1.2 and section 5 more generally. Next Payments refers to the market in which the Applicants would become monopolists as the market for the supply of CIT services to independent ATM deployers.

113 NCR Australia Group’s submission attached an expert report prepared by Greg Houston of HoustonKemp Economists (*Competitive effects and public benefits of the proposed Armaguard and Prosegur merger*, Expert report of Greg Houston, HoustonKemp Economists, 28 October 2022 (**HoustonKemp Report**)). Next Payments’ submission attached an expert report prepared by Dr Geoff Edwards of Charles River Associates (*Linfox Armaguard / Prosegur, Economic Expert Report prepared for Next Payments*, Dr Geoff Edwards, Charles River Associates, 2 November 2022 (**CRA Report**)).

114 NCR Australia Group submission, 28 October 2022, p 35.

mitigate this to some extent by partnering with Prosegur for CIT services, the Proposed Transaction will remove that option.[115]

3.78. Both NCR Australia Group and Next Payments submit that the merged entity could engage in a range of strategies to foreclose competitors in downstream and adjacent markets in order to expand its own presence, including:

- withholding or refusing to supply competing independent ATM deployers with CIT services, which are a key input into ATM deployment services
- raising the prices of CIT services or reducing CIT service quality to competing independent ATM deployers
- bundling CIT services to merchants with ATM deployment services, such as by offering discounted CIT services to merchants who also obtain ATM deployment services from the merged entity.[116]

ACCC's preliminary views

3.79. A key prerequisite for a vertical foreclosure theory of harm in the present case is that the Proposed Transaction substantially lessens competition or enhances the sole supplier's market power in a relevant upstream market for the supply of CIT services. If such an effect is not likely, the Proposed Transaction would not substantially increase the ability of the sole supplier to foreclose competitors in downstream and adjacent markets.

3.80. In assessing foreclosure concerns, it is worth separating 2 potential effects of the Proposed Transaction on competition in downstream and adjacent markets:

- the extent to which the sole supplier might restrict supply, raise prices or lower quality for the supply of CIT services *in general*, and whether this would result in higher prices or lower quality in the supply of services in downstream and adjacent market
- the extent to which the sole supplier might restrict supply, raise prices or lower quality for the supply of CIT services *to competing firms in downstream and adjacent markets by more than to other similar CIT customers*, and whether this incremental conduct leads to (further) increases in prices or lowering of quality in the supply of services in those downstream and adjacent markets.

3.81. If the Proposed Transaction increases the sole supplier's ability and incentive to raise prices or lower the quality of CIT services or to engage in vertical foreclosure conduct compared to the counterfactual, it could substantially lessen competition in markets downstream and adjacent to the supply of CIT services. The ACCC considers that the outcomes associated with a substantial lessening of competition in such markets could include:

- increased transaction fees for cardholders
- reduced ATM fee revenue for merchants acquiring ATM deployment services
- reduced access to cash for cardholders, particularly in regional and remote areas
- reduced service improvements and innovation in independent ATM networks.

3.82. Similar effects could play out for the supply of ATMs as a service and ATM maintenance services.

115 NCR Australia Group submission, 28 October 2022, p 26, 40, 41.

116 NCR Australia Group submission, 28 October 2022., pp 37, Next Payments submission, 31 October 2022, p12.

3.83. The ACCC's preliminary view is that if we are not satisfied that the Proposed Transaction would not lead to a substantial lessening of competition in the supply of retail CIT services (as part of integrated wholesale and retail CIT services of full-service retail CIT services), the above harms would be likely to follow.

The ACCC invites views and any further information on:

9. Whether in the supply of cash withdrawal facilities, independent ATM deployers are constrained by bank or other ATMs which do not charge fees.
10. The likelihood that the merged entity will engage in vertical foreclosure strategies with the purpose or effect of limiting or reducing competition from firms who are actual or potential suppliers of:
    - ATM deployment services to merchants
    - ATM access arrangements and 'ATMs as a service' to financial institutions
    - ATM maintenance services to financial institutions
    - independent ATM deployment services

    and if so, how (e.g., by increasing prices of CIT services to those competitors above monopoly levels, or by other means).
11. Whether:
    a. prices or terms for CIT services supplied to competitors in downstream or adjacent markets are likely to worsen following the Proposed Transaction and
    b. the extent to which such worsening would likely cause independent operators to lose scale efficiencies and/or raise their own prices or to cease supplying the relevant services.

Future with and without the Proposed Transaction

3.84. This section outlines the ACCC's preliminary views about the likelihood of the following counterfactual scenarios occurring in the absence of the Proposed Transaction:

- counterfactual where more than one major supplier of integrated wholesale and retail CIT services and full-service retail CIT services (**CIT services**) operate independently in the medium to longer term
- counterfactual where 1 of the Applicants ceases supplying CIT services
- counterfactual where both Applicants cease supplying CIT services.

Approach to factual and counterfactuals

3.85. In determining whether to authorise the Proposed Transaction, the ACCC will compare the future in which the Proposed Transaction occurs (the factual) to the non-trivial possible futures in which the Proposed Transaction does not occur that have been raised for the ACCC's consideration and that come to light during the course of the ACCC's investigation (the relevant counterfactuals). The ACCC will also assess the benefits and detriments to the public likely to result from the Proposed Transaction, compared to the relevant counterfactuals.

3.86. Conventionally, the potentially relevant counterfactuals include the status quo: in the event the Proposed Transaction does not take place, the Applicants' businesses continue to compete with each other (2 independent suppliers counterfactual).

3.87. However, the Applicants submit that, in the event that the Proposed Transaction does not occur, the 2 independent suppliers counterfactual is not likely. Rather, the Applicants submit that the likely counterfactual is that one of them will cease providing CIT services, leaving a single major supplier of CIT services (one Applicant ceases supplying services counterfactual). The Applicants submit that, when compared to the 1 Applicant ceases supplying services counterfacutal, the Proposed Transaction would not result in a substantial lessening of competition.

3.88. In the application, the Applicants leave open the possibility that both will cease providing CIT services, leaving no major supplier of CIT services (both Applicants cease supplying services counterfactual). The ACCC's preliminary view is that while this scenario is not likely to eventuate, if it did the likely detriments associated with it would be high.

Counterfactuals that the ACCC is considering

3.89. The Applicants emphasise the challenges caused by the COVID-19 pandemic and a long-term reduction in the demand for cash transactions.[117] The Applicants submit that the counterfactual involves a different level of competition from that which has persisted over recent years.[118] They propose that the following counterfactual scenarios are likely:[119]

- 1 of the Applicants will cease supplying CIT services
- both Applicants will cease supplying CIT services.

3.90. The ACCC is also considering the likelihood of a third counterfactual scenario where more than one major CIT suppliers operate independently and sustainably in the supply of CIT services in the medium to longer term.

More than 1 independent supplier counterfactual - where more than one major CIT supplier continues to operate independently in the medium to longer term

3.91. The Applicants submit it is very likely that one of the Applicants will exit the supply of CIT services within the short to medium term.

3.92. The Applicants submit that the status quo, where both Applicants compete independently, is not sustainable for reasons including:

- high fixed costs are being spread over declining volumes with the Applicants not being able to match volume reductions with corresponding cash reductions, resulting in excess capacity and the provisions of services becoming increasingly unprofitable
- unsustainable declines in pricing and revenues, rendering the Applicants unable to break-even, including because of unsustainable competition between them

117 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 11.
118 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 120.
119 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 120.

- options for diversification being exhausted and further closures of Approved Cash Centres, and outsourcing opportunities being unlikely to return their CIT businesses to profitability.[120]

3.93. The Applicants submit that competition between them for CIT services is unsustainable, partly because each Applicant is highly unlikely to achieve an increase in revenues to sustainable levels. This would require either volumes or prices to increase, or both.[121] In support of this proposition, the Applicants submit that:

- Increasing prices would put critical volumes at risk of loss, either to a competitor or altogether from the market, if higher prices trigger customers to stop accepting cash entirely.[122]
- Extensive cost cutting has not returned the Applicants' CIT businesses to profitability, and further cost cutting is unlikely to do so with declining cash usage and revenues.[123]
- The Applicants have limited scope to further reduce the cash distribution costs associated with their networks of Approved Cash Centres while maintaining their current Approved Cash Centre footprints.[124] Prosegur notes that some customer contracts require them to provide national CIT services.[125]
- Any loss of significant customer contracts would lead to a decline in scale.[126]

3.94. Further, the Applicants submit that if one or both exit, a third party would be unlikely to acquire the business or assets.[127] The Applicants submit that if one of them exits the lower prices that customers have benefited from by having the Applicants competing against each other will not endure and prices could even be higher than under the Proposed Transaction.[128]

3.95. However, submissions from interested parties provide support for the view that both Applicants could continue to supply CIT services in the medium to longer term.

3.96. The ACCC is considering 3 potential scenarios that fall under this counterfactual:

1. Neither Applicant ceases supplying CIT services as they remain sustainable through successful restructuring.
2. Neither Applicant ceases supplying CIT services as they remain sustainable through a commercial arrangement short of the Proposed Transaction.
3. One Applicant ceases supplying CIT services, but its business is acquired by one or more third parties and operates in competition with the remaining Applicant.

Applicants' ability to continue supplying CIT services through restructuring

Decline in the use of cash and demand for CIT services

3.97. The Applicants submit that competition between them is unsustainable, including because the high fixed costs associated with Approved Cash Centres and transport

[120] Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 123-126.
[121] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 119.
[122] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 119.
[123] Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 121-122.
[124] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 123.
[125] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 119.
[126] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 119.
[127] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 129.
[128] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 127.

infrastructure are being spread over declining volumes of cash usage and because prices have fallen.[129]

3.98. Some interested party submissions broadly support aspects of the Applicants' position that the current structure of the CIT industry is unlikely to be sustainable.[130] For example, Cuscal, a large independent supplier of end-to-end payment solutions, submits that the continued decline in cash transactions is likely to result in deterioration in services as entities continue to seek a reduction in operating costs, and especially if one of the Applicants is forced to exit.[131]

3.99. The Reserve Bank submits that some form of change is required to reduce the excess capacity within the cash system.[132] The Reserve Bank notes that the industry has high fixed costs and declining volumes, and that lower volumes have contributed to significant excess capacity at the wholesale level which is placing financial pressure on CIT suppliers, including the Applicants.[133]

3.100. Conversely, some interested parties disagree with the Applicants' view that demand for cash is insufficient to sustain 2 national CIT suppliers.[134]

3.101. Interested parties generally agree with the Applicants' view that cash usage has declined in recent years.[135] The Australian Retailers Association notes a particularly significant decline in retail.[136]

3.102. However, interested parties submit a range of views regarding the most recent trends in cash usage, and therefore the likely levels of cash transactions in the short to medium term. Some interested parties submit that cash transactions are unlikely to return to pre-pandemic levels,[137] while other interested parties submit that cash usage may be stabilising or rebounding.[138]

3.103. Despite this range of views, interested parties appear to broadly agree that declining cash usage has resulted in a decrease in demand for CIT services. Australian Security Industry Association Limited submits that lower processing volumes have led to underutilisation of cash distribution infrastructure and increased the average cost of transporting and processing banknotes.[139]

3.104. Nonetheless, some interested parties submit that despite declines in cash usage there will continue to be a level of demand for CIT services because there are end-consumers who prefer to use cash. Woolworths notes that cash is an integral part of its service offering as its customers value access to physical cash services.[140] Authentic Security considers that, while there has been a general decline with respect to CIT and ATM transactions, the industry will continue to require cash in both service

129 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 123.

130 See, e.g., Reserve Bank of Australia submission, 28 October 2022, p 3; Giesecke+Devrient submission, 21 October 2022, p 3.

131 Cuscal submission, 21 October 2022, p 2.

132 Reserve Bank of Australia submission, 28 October 2022, p 3.

133 Reserve Bank of Australia submission, 28 October 2022, p 3.

134 NCR Australia Group submission, 28 October 2022, p 27; An Interested Party submission, 27 October 2022, p 2.

135 National Australia Bank submission, 28 October 2022, p 4; Australian Retailers Association submission, 21 October 2022 p 1; Cuscal submission, 21 October 2022, p 2.

136 Australian Retailers Association submission, 21 October 2022 p 1.

137 See, e.g., Australian Retailers Association submission, 21 October 2022 p 1.

138 See, e.g., Coles Group Limited submission, 28 October 2022, p sub p 6; Australian Hotels Association submission, 28 October 2022, p 3; An Interested Party submission, 27 October 2022, pp 2-3.

139 Australian Security Industry Association submission, 27 October 2022, p 3.

140 Woolworths Group Limited submission, 11 November 2022, p 1.

areas.[141] One interested party, in a confidential submission, notes that while the decline in cash usage has had an impact, some sectors such as hospitality are still ‘cash heavy’.

3.105. The ACCC is considering whether the demand for CIT services, particularly nation-wide CIT services, is likely to be sufficient in the medium term to sustain 2 efficiently-sized major CIT suppliers.

3.106. This assessment includes detailed analysis of the Applicants’ financial records and business plans, which have been provided to the ACCC on a confidential basis.

12. The ACCC invites further views and information about:

a. likely future trends in cash usage, particularly post-COVID-19

b. consumers’ willingness/ability to switch to non-cash payment methods if access to cash becomes more expensive or less convenient

c. likely future trends in demand for CIT services, including customers’ willingness to pay for different levels of quality and frequency of CIT services

d. any differences between the likely levels of demand for wholesale CIT services and retail CIT services in the short to medium term

e. any likely structural shifts or events that may reduce or increase the demand for CIT services, such as new technology or regulatory changes.

Applicants’ ability to reduce costs by restructuring

3.107. The Applicants submit that options for diversification are limited and have been exhausted.[142] As such, the Applicants submit they are unlikely to return to profitability by further Approved Cash Centre closures or further outsourcing.[143]

3.108. Giesecke+Devrient notes that to meet service level agreements and contractual obligations, the option to close a depot and service customers from another location is not always viable due to the distances between depots.[144]

3.109. However, some interested parties raise the possibility of the Applicants restructuring to reduce costs and avoid the need for the Proposed Transaction. NCR Australia Group notes that the Applicants are each part of large corporate groups with complementary business units that support their CIT operations.[145] NCR and HoustonKemp consider that a range of options may be available, including a reduction in cost base through efficiencies such as partial closure of the most unprofitable parts of operations or sale of some or all assets either to unrelated entities or another firm in the supply chain to drive efficiencies in the cost of continued operations.[146]

3.110. Wesfarmers submits that there may be opportunities for the Applicants to restructure their businesses, which could involve changes to the nature and scale of their operations or innovative use of new technologies.[147] An Interested Party submits that

141 Authentic Security submission, 20 October 2022, p 3.

142 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 124.

143 Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 125-126.

144 Giesecke+Devrient submission, 21 October 2022, p 3.

145 NCR Australia Group submission, 28 October 2022, p 27.

146 NCR Australia Group submission, 28 October 2022, p 30; HoustonKemp Report for NCR Australia Group, 28 October 2022, p 17.

147 Wesfarmers submission, 28 October 2022, pp 3-4.

ATM maintenance remains a viable secondary revenue streams if structured correctly.[148]

3.111. A multi-store retail chain submits that the appropriate response to difficult competitive conditions is for each of the Applicants to find ways to reduce costs, increase efficiencies and innovate, not to seek to remove competition. It considers that a more likely counterfactual than 1 of the Applicants exiting is that 1 of them will be acquired by a third party who would be incentivised to 'right-size' the business.[149]

3.112. The ACCC is considering whether the Applicants could successfully restructure to reduce costs and increase profitability without the Proposed Transaction. As noted above, this includes examining the Applicants' financial records and business plans.

13. The ACCC invites further views and information about whether it would be viable for the Applicants, having regard to the specific requirements and willingness to pay of CIT customers, to:

a. reduce service levels, including by providing lower frequency of service, further rationalising routes, or moving to next-day processing

b. introduce amended pricing arrangements for services

c. implement further Approved Cash Centre closures

d. engage in further outsourcing

e. diversify their offerings, including by increasing complementary service offerings, splitting up existing offerings, refocusing offerings in terms of geographic areas or products, or otherwise, or

f. sell assets to third party buyers as part of a rationalisation strategy.

Arrangements short of a full merger

3.113. The Applicants submit that any options short of a full merger are not viable or sufficient to support the 'less cash' environment that the Applicants are in.[150]

3.114. However, some interested parties put forward submissions regarding alternative arrangements short of a full merger. For example, Next Payments submits that the Applicants could enter an infrastructure sharing arrangement or joint venture, instead of a merger, that reduces costs and improves efficiencies for the Applicants' CIT businesses.[151] Wesfarmers submits that the Applicants may be able to partner with customers, for example in the use of routing software, so that they remain financially viable without the need for a merger.[152]

3.115. NCR Australia Group and HoustonKemp consider a range of options may be available to a firm in a situation in which it does not expect to recover cash costs of continued operations, other than exit or full merger with a competitor. Options include:

- partial closure of the most unprofitable parts of operations
- sale of some or all assets, either to an unrelated firm or another firm in the supply chain, or

148 An Interested Party submission, 27 October 2022, p 3.

149 Multi-store retail chain submission, 31 October 2022, p 3.

150 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 99.

151 Next Payments submission, 31 October 2022, p 4.

152 Wesfarmers submission, 28 October 2022, pp 3-4.

- entry into a joint venture arrangement with a competitor to share costs in unprofitable parts of operations.[153]

3.116. The Reserve Bank notes that there are other CIT service models the viability of which have not been tested in the current Australian context[154] and that while the Proposed Transaction is one option, the appropriate path forward will depend on a range of factors.[155]

3.117. The ACCC is considering whether an arrangement short of a full merger could allow the Applicants to continue to supply CIT services without the Proposed Transaction.

14. The ACCC invites further views and information about:
    a. whether or not, and the extent to which, any industry restructuring (including the Proposed Transaction or any other alternative arrangement) is necessary for the supply of CIT services to remain sustainable
    b. the viability of specific alternative arrangements in the supply of CIT services, including joint ventures between competitors or partnerships with customers, having regard to the nature of CIT services and the Australian industry
    c. the willingness and viability of CIT customers and CIT suppliers collaborating in these ways, and any challenges regarding such arrangements.

Acquisition of outgoing Applicant's business by a third party

3.118. The Applicants submit that without the Proposed Transaction it is highly unlikely that either of the Applicants will find a third party that would be willing to acquire and continue operating its CIT business, as demonstrated by the Applicants' prior attempts to engage with third parties in relation to a sale.[156]

3.119. However, confidential submissions from some other CIT suppliers express a level of interest in expanding, including to some extent, expanding into the supply of CIT services to national and wholesale CIT customers. In confidential submissions, 2 interested parties noted interest or capacity to service additional customers or run/acquire parts of the Applicants' businesses.

3.120. The ACCC's preliminary view is that there may be smaller CIT suppliers who would be potential purchasers for parts of the Applicants' CIT businesses if one of them were to cease supplying CIT services. However, the ACCC is considering whether, if one Applicant ceases supplying CIT services, purchasers other than the other Applicant will acquire the business or assets of the outgoing Applicant and continue to operate at the scale required to compete with the remaining Applicant, particularly in the supply of CIT services to the Major Banks and national customers.

15. The ACCC invites further views and information about:
    a. whether any entity, including multinational firms, would be able to acquire all or most of the business or assets and continue to supply CIT services in Australia, particularly at a national scale or wholesale level
    b. whether any existing CIT supplier could expand into the supply of wholesale CIT services, either with backing by a large customer, in partnership with another CIT

153 NCR Australia Group submission, 28 October 2022, p 30; HoustonKemp Report for NCR Australia Group, 28 October 2022, p 17.

154 Reserve Bank of Australia submission, 28 October 2022, pp 9-10.

155 Reserve Bank of Australia submission, 28 October 2022, p 3.

156 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 129.

supplier or otherwise, and if so at what scale (incremental expansion versus expanding to become a national supplier in the short to medium term)

c. the identity of potential buyers who could service the Major Banks (both integrated wholesale and retail CIT services) and other large national customers such as Australia Post and the large retailers.

d. the likelihood that no entity would acquire all of most of the business or assets and continue to supply CIT services in Australia, particularly at a national scale or wholesale level, given current demand for CIT services.

One Applicant ceases supplying services counterfactual

3.121. As outlined above, while the Applicants submit that it is very likely that one of them will cease supplying CIT services in the short to medium term if the Proposed Transaction does not proceed,[157] and a third party would be unlikely to acquire their business,[158] submissions from interested parties provide support for the view that both Applicants could continue to supply CIT services in the medium to longer term.

3.122. If the competition effects outlined in the competition assessment section above are likely to occur with or without the Proposed Transaction (where one of the Applicants ceases to supply CIT services), those effects will not be attributable to the Proposed Transaction.

Timing of exit

3.123. As noted, the Applicants submit that one Applicant exiting the supply of CIT services is very likely in the short to medium term.[159]

3.124. NCR Australia Group submits this is not credible because:

- the Applicants each have ongoing long-term contractual commitments for CIT services with a wide range of customers in Australia
- the Applicants are conscious of the impact that ceasing to supply CIT services would have on their global reputations.[160]

3.125. The ACCC is considering the likely timing of an Applicant ceasing to supply CIT services without the Proposed Transaction. The likely timing of an Applicant ceasing to supply CIT services is relevant to the ACCC's assessment of the competitive impact of the Proposed Transaction (see the competition assessment section above) and the claimed public benefits (see further below).

16. The ACCC invites further views and information about:

a. the likely timing of exit (if any), having regard to contract lifespans and upcoming contract renewal points, especially for larger customers, and

b. whether any exit would occur sooner within the next 2 years if an Applicant were to lose any important contracts.

157 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 120.

158 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 129.

159 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 16

160 NCR Australia Group submission, 28 October 2022, pp 27-28.

Both Applicants cease supplying services counterfactual

3.126. The Applicants submit that, while both Applicants exiting the market is less likely than one Applicant exiting, this could be brought about by a shock similar to the COVID-19 pandemic.[161]

3.127. However, submissions from interested parties generally do not provide support for this view, and several submissions note that it is unlikely that either Applicant would cease supplying (see the sections above).

3.128. While the ACCC is still considering the financial position of both Applicants, on the information available to it, the ACCC's preliminary view is that it is not a realistic possibility that both Applicants will cease supplying CIT services in the short to medium term.

3.129. The ACCC recognises that it is possible for both Applicants to cease supplying CIT services, as it is always possible for any business to cease supply of services. In such a scenario, the Major Banks would likely need to insource the supply CIT services, or sponsor a new entrant to supply CIT services, to meet the banknote distribution requirements set by the Reserve Bank of Australia. Retail customers may also consider using other full-service retail CIT suppliers to supply CIT services, noting that paragraph 3.40 identifies that barriers to providing full-service retail CIT services on the breath or scope required by major customers is high. However, the ACCC is considering whether this is a realistic possibility rather than speculation regarding a possibility.

3.130. The ACCC also notes that there is an ongoing need for CIT services in Australia. There appears to be sufficient demand to support at least one major CIT supplier, and the ACCC has not received information to suggest that this is not the case. Further, the Applicants' commitment to the Proposed Transaction suggests they are also of the view that at least one major CIT supplier is sustainable.

17. The ACCC invites any further submissions regarding the ongoing need for CIT services in Australia and the actions that Major Banks and Retail customers may take in response to both Applicants ceasing to supply CIT services in the short to medium term.

Conclusion regarding areas of competition where competition concerns are likely to arise

3.131. The ACCC's preliminary view is that a transition from 2 major suppliers of integrated wholesale and retail CIT services and full-service retail CIT services to one supplier of these services is likely to provide the remaining entity with the ability and incentive to substantially raise prices and/or reduce the level of its service offering (for example, pick up frequency, geographic scope of pick-up routes and processing times).

3.132. The extent to which any reduction in competition is a consequence of the Proposed Transaction depends on:

- whether a move from 2 to one major supplier would occur both with or without the Proposed Transaction, and, if this were the case
- the manner and timeframe in which the move would occur both with and without the Proposed Transaction.

3.133. The ACCC is still investigating these issues.

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161 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 120.

3.134. If no more than one major supplier would continue to supply integrated wholesale and retail CIT services and/or full-service retail CIT services if the Proposed Transaction does not proceed, then the degree of competitive harm caused by the Proposed Transaction will likely depend on whether there is a material difference in the way the transition from 2 to one supplier would be likely to occur if one of the Applicants ceased supplying CIT services compared to the Proposed Transaction.

- If one of the Applicants was to immediately discontinue supplying CIT services at around the same time as the Proposed Transaction would occur (approximately April 2023), then the competitive harm may be similar under both scenarios.
- However, if one of the Applicants was to cease supplying CIT services at a later date and/or gradually wind down the services they offered in an orderly manner, then a degree of competition may be preserved for a longer period than would be the case under the Proposed Transaction. Further, an orderly wind down over time may provide for some ongoing competition, for example by creating more opportunities for smaller suppliers to acquire assets to expand their service offering and provide some level of competition with the remaining Applicants' service offering (even if unlikely to match it).

Areas of competition where competition concerns are unlikely to arise

3.135. The ACCC has identified the following 4 areas of competition where its preliminary view is that the Proposed Transaction is unlikely to raise significant competition concerns:

- cash-transport-only CIT services
- ATM services (including the supply of cash withdrawal facilities, ATM deployment services, and ATM access arrangements to financial institutions)
- ATM maintenance services (including the supply of first line maintenance, second line (specialist) maintenance and complete line maintenance services)
- precious cargo transportation services.

Cash-transport-only CIT services

3.136. Cash-transport-only CIT services are generally provided to smaller retail or hospitality customers requiring cash transport between their location(s) and bank branches. These customers do not require third-party cash processing or administration services because they typically balance and count cash themselves or allow processing to be done by the bank.[162]

3.137. The Applicants submit that the merged entity will be constrained by the large number of suppliers of cash-transport-only services, of which there are over 200, including specialist soft-skin suppliers (who use non-armoured vehicles with fewer security features).[163] The Applicants estimate that Prosegur holds the second largest share of services in this market of between 20% and 25% (behind Security Specialists), while Armaguard holds a significantly smaller share.[164]

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162 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 108.

163 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 172.

164 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 108.

3.138. The ACCC's preliminary view is that the Proposed Transaction is unlikely to raise significant competition concerns for the supply of cash-transport-only CIT services for the following reasons:

- there are a large number of alternative suppliers of cash-transport-only CIT services who will constrain the merged entity
- there appears to be low barriers to entry or expansion for potential suppliers. In particular, the ACCC's preliminary view is that existing suppliers are likely to be constrained by:
    - the threat of some customers insourcing their CIT services i.e., transporting cash to the bank themselves, with more businesses likely to explore options for doing so if the price of cash-transport-only CIT services increases or the use of cash continues to decline and they require less cash to be transported. The ACCC notes that insourcing is likely to be a less viable option for some businesses, particularly those transporting larger volumes of cash due to security concerns and related insurance and licensing requirements, and lack of infrastructure, equipment and personnel
    - the threat of entry or expansion by courier firms, security firms, precious cargo firms and international CIT companies some of which have existing capabilities (including equipment and skilled personnel) and/or existing customer relationships.

ATM services (horizontal issues)

3.139. In this section, 'ATM services' refers to 3 distinct services:

- the supply of cash withdrawal facilities (i.e., the supply of cash withdrawal facilities to consumers through bank branches, Bank@Post outlets, and retailers)
- the supply of ATM deployment services to merchants (i.e., ATM suppliers placing ATMs in retail and hospitality venues)
- the supply of ATM access arrangements to financial institutions (i.e., independent ATM suppliers supplying ATMs to banks / 'ATMs as a service').

3.140. With respect to these services the Applicants submit:

- Supply of cash withdrawal facilities: Post merger, there would be a range of substitutes for the Applicants' ATMs likely able to constrain the merged entity, many of which are fee free. This includes financial institutions' ATMs (around 80% of which are fee free), independent ATM deployers, Bank@Post outlets, and retailers with ATMs (some of which are fee free).[165]
- Supply of ATM deployment services to merchants: Post-merger, there would be substitutes available to constrain the merged entity, including Cardtronics, Next Payments and Banktech, who have estimated market shares of 28.2%, 16.2% and 10.6% respectively. In addition, post-merger, the Applicants' estimated combined market share would be 11.6%.[166] Further, barriers to entry and/or expansion are low, as demonstrated by Next Payments' growth since its entrance.[167]
- Supply of ATM access arrangements to financial institutions: Post-merger, Cardtronics would likely be able to constrain the merged entity, and other

[165] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 175.

[166] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 112.

[167] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 179.

independent ATM deployers are potential future competitors, such as Next Payments and Banktech. Banks sponsoring new entry or expansion or insourcing will also constrain the merged entity.

3.141. Few interested parties raised concerns about potential competition effects in the supply of these services. However, a multi-chain retail store raises concerns that competition among large national suppliers deploying, servicing and maintaining ATMs will be substantially diminished by the merger.[168] Additionally, NAB submits that the complexity of establishing an ATM fleet makes the prospect of new entry unlikely and due to this, insourcing is not likely to be a constraint.[169]

3.142. The ACCC is considering the degree to which each of the factors identified by the Applicants is likely to constrain the merged entity. However, the ACCC's preliminary view is that the Proposed Transaction is unlikely to raise significant competition concerns for the supply of any of these services given:

- the number of alternative cash access points (particularly where fee-free)
- competition from banks and other independent ATM deployers.

ATM maintenance services (horizontal issues)

3.143. As described in paragraph 2.39, the Applicants supply the following ATM maintenance services: first line maintenance, second line (specialist) maintenance and complete line maintenance services.

3.144. The ACCC is not currently separately considering further potential impacts of the Proposed Transaction on competition for the supply of first line maintenance and complete line maintenance services because:

- For first line maintenance services, the ACCC's preliminary view is that these services can be considered as part of the supply of CIT services. This is because customers generally acquire these services from their CIT supplier, or if they are a bank, may self-source. In addition, no interested parties raised specific concerns about the impact of the Proposed Transaction on first line maintenance services.
- For complete line maintenance services, Prosegur does not currently supply these services.

3.145. The ACCC's preliminary view is that the Proposed Transaction is unlikely to raise significant competition concerns for the supply of specialist maintenance services. Armaguard currently has an estimated market share of 30-40%; however, Prosegur only has a de minimis market share. The ACCC's preliminary view is those larger competing suppliers of specialist maintenance services (such as NCR Group Australia and Cardtronics, who the Applicants describe as having a 'much larger share'[170]) are likely to constrain the merged entity.

Precious cargo transportation services

3.146. The Applicants both supply precious cargo services, being the transportation and storage of valuable goods, which are not Australian cash, as described at paragraph 2.40.

168 Multi-store retail chain submission, 31 October 2022, p 4.

169 National Australia Bank submission, 28 October 2022, p.6.

170 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 114.

3.147. The ACCC's preliminary view is that the Proposed Transaction is unlikely to raise significant competition concerns for the supply of these services for the following reasons:

- The merged entity is likely to have a relatively low market share. The Applicants estimate that each of them has a pre-merger market share of less than 10%.[171]
- There would be a number of substitutes available post-merger able to constrain the merged entity, including Brink's, Ferrari Logistics, Malca-Amit/Authentic Security, and Security Specialists. The Applicants and An Interested Party note Brink's strength in the supply of precious cargo transportation services.

3.148. Additionally, interested parties did not raise any competition concerns about the Proposed Transaction in relation to the supply of precious cargo services.

Cash-transport-only CIT services

18. The ACCC invites views and further information about:
    a. whether there is a separate market for cash-transport-only services (i.e., competition to supply customers who only engage CIT suppliers for cash transport services, not for processing and administration services as well)
    b. if so, the likely effect of the Proposed Transaction on competition for the supply of cash-transport-only services, including the likelihood that the merged entity would have the ability or incentive to raise prices, or decrease the quality of service, following the Proposed Transaction.

ATM services and specialist ATM maintenance services

19. The ACCC invites views and further information about:

ATM services:

a. Any impact of the Proposed Transaction on competition in the supply of ATM services (whether the supply of cash withdrawal facilities, ATM deployment services to merchants, or ATM access arrangements to financial institutions)

Specialist ATM maintenance services:

b. Any impact of the Proposed Transaction on competition in the supply of specialist ATM maintenance services.

c. Whether customers who acquire both specialist ATM maintenance services and CIT services typically acquire those services jointly.

Precious cargo transportation services

20. The ACCC invites views and further information about any impact of the Proposed Transaction on competition in the supply of precious cargo transportation services.

[171] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 116.

4. ACCC's preliminary views on the likely public benefits and public detriments

The net public benefit test

4.1. As described at paragraph 1.9, the ACCC may grant merger authorisation, but must not do so unless satisfied, in all the circumstances, that either:

- the conduct would not have the effect, or not be likely to have the effect, of substantially lessening competition (the '**No SLC Test'**), or
- the conduct would result, or be likely to result, in a public benefit, and this public benefit would outweigh the public detriment that would result, or be likely to result, from the conduct (the '**Net Public Benefit Test'**).

4.2. The tests are alternative: they provide 2 different bases on which the ACCC may grant authorisation of a proposed transaction.

4.3. Consistent with the Australian Competition Tribunal (the **Tribunal**), the ACCC adopts a broad approach to considering public benefits. The Tribunal has stated that in considering public benefits:

> …we do not wish to rule out of consideration any argument coming within the widest possible conception of public benefit. This we see as anything of value to the community generally, any contribution to the aims pursued by society including as one of its principal elements (in the context of trade practices legislation) the achievement of the economic goals of efficiency and progress.[172]

4.4. Similarly, the ACCC adopts a broad approach to its assessment of public detriments. This is consistent with the Tribunal which has defined it as:

> …any impairment to the community generally, any harm or damage to the aims pursued by the society including as one of its principal elements the achievement of the goal of economic efficiency.[173]

4.5. In applying the Net Public Benefit Test, the ACCC assesses all benefits and detriments, not just those related to effects on competition. The ACCC will have regard to any non-trivial competitive or other detriment to the public that would result, or be likely to result, from the proposed conduct.

4.6. The scope of relevant competitive benefits or detriments is not confined to the 'substantial lessening of competition' analysis required by section 50 of the Act and which applies in the first limb of the test for merger authorisation. Under the Net Public Benefit Test, a lessening of competition does not have to be 'substantial' to be a detriment to the public that is relevant to the assessment.

ACCC's preliminary views on public benefits

4.7. The Applicants submit that the Proposed Transaction will generate genuine and necessary benefits for the Australian public. They consider that the Proposed Transaction is not likely to result in any public detriments, and even if it did, these would be limited compared to the public benefits likely to result.[174]

[172] *Re Queensland Co-operative Milling Association Ltd* (1976) 8 ALR 481, at 507-8.

[173] *Re 7-Eleven Stores Pty Ltd* [1994] ATPR 41-357 at 42,683 (Lockhart J, Prof M Brunt and Dr B Aldrich).

[174] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 134.

4.8. In particular, the Applicants submit the Proposed Transaction will result in the following public benefits:

- avoiding the likely dislocation costs, uncertainty and customer impacts associated with the (inevitable) disorderly exit of 1 or both of the Applicants
- maintaining confidence in cash as a high-quality payment system
- improving productive efficiencies by reducing duplication of fixed costs
- ensuring high levels of service
- creating a sustainable entity better placed to invest
- reducing the Applicants' carbon footprint
- avoiding transition costs associated with a move to a new regulatory model
- maintenance of industry safety standards
- preserving the complementary expertise of both Applicants.

4.9. The ACCC considers that some of these submitted public benefits are most relevant when considered against a counterfactual where 1, or both, of the Applicants will cease supplying CIT services if the merger does not proceed. This is because they relate to avoiding the potentially adverse outcomes of such an exit.

4.10. Other submitted public benefits are most relevant against a counterfactual where both Armaguard and Prosegur will continue to operate independently of each other; for example, reducing duplicated fixed costs. This is because if, as the Applicants submit, 1 of the Applicants is likely to cease supplying CIT services if the merger does not proceed, these duplicated fixed costs would be removed both with and without the merger.

Avoiding costs and customer impacts associated with 1, or both, of the Applicants ceasing to supply CIT services and maintaining confidence in cash as a payment system

4.11. The ACCC considers that the submitted public benefits of avoiding costs and customer impacts associated with 1, or both, of the Applicants ceasing to supply CIT services and maintaining confidence in cash as a payment system are linked. This is because the Applicants submit that the disruption that may occur due to a what they characterise as a 'disorderly exit' may result in reduced confidence in cash. Consequently, the ACCC has considered these 2 submitted public benefits together.

The Applicants' views

4.12. As described at paragraph 3.87, the Applicants submit that absent the Proposed Transaction, either Armaguard or Prosegur, or both, would exit, from the supply of CIT services.[175] They submit that a public benefit that will result from the Proposed Transaction is avoiding the dislocation costs and associated customer impacts of a disorderly exit. They submit that the Proposed Transaction provides the opportunity for an 'orderly transformation to a sustainable model'[176] and will ensure the availability of safe and reliable cash access and acceptance, while maintaining confidence in the cash payment system.[177]

175 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 120.
176 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 138.
177 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 139.

4.13. The Applicants consider there is a 'real risk' that if 1 of them exits, this would involve 'substantial dislocation of costs and disruption resulting from a sudden reduction in capacity.'[178] They submit that this interruption would be inevitable as the remaining supplier would be unable to service the entire customer base in a timely manner. This would cause gaps in service continuity, stranded customers, lack of access to staff, and could result in a 'run' on cash in some areas.[179]

4.14. Armaguard considers that if it exited, there would be a 'collapse in critical cash processing and secure cash transport function of the Australian economy.'[180] Prosegur submits that the remaining Applicant would need to 'rapidly scale up, transition work, and negotiate new contracts' which would require 'significant resources,' impacting the cash system in the short and medium term.[181]

4.15. Prosegur submits that during this transition period:

- There may be a cash shortage, due to it being likely that ATMs, businesses and customers may be without cash.[182]
- ATMs, businesses and customers may be vulnerable to security threats (such as robberies), until the remaining supplier can scale up and onboard these services.[183]
- Consumers may be forced to adopt non-cash payments, due to a significant chance that many businesses may choose to abandon cash or be unable to provide change.[184]
- Banks will likely temporarily or permanently cease cash services at bank branches unable to be serviced, which may mean they never re-open, particularly in regional communities (as occurred during the COVID-19 pandemic).[185]

4.16. The Applicants also submit that major banks would lose access to high quality banknotes, which would significantly decrease retailers' long-term confidence in cash. [186]

4.17. The Applicants state that if either parent company withdrew support, this would likely result in a voluntary administrator being appointed, which could result in repudiation of customer contracts and termination of employee contracts.[187]

Interested parties' views

4.18. Several interested parties agree that an exit by either of the Applicants would cause some disruption to cash distribution and access to cash, at least in the short term.[188] Some submit that exit would cause major interruptions.[189] The Reserve Bank also submits that disruption could have a longer-term impact on cash use, although this

[178] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 134.

[179] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 14.

[180] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 134.

[181] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 134.

[182] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 134.

[183] Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 134-135.

[184] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 135.

[185] Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 139-140.

[186] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 140.

[187] Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 137.

[188] Reserve Bank of Australia submission, 28 October 2022, p 12; National Australia Bank submission, 28 October 2022, p 7; Coles Group Limited submission, 28 October 2022, p 7; Giesecke+Devrient submission, 21 October 2022, p 4; Cash Processing Solutions submission, 19 October 2022, p 2;; An interested party submission, 27 October 2022, p 4.

[189] Coles Group Limited submission, 28 October 2022, p 7; An Interested Party submission, 27 October 2022, p 4.

may be a function of the duration of the disruption and the responsiveness of customer behaviour. The Reserve Bank further submits that while banks and businesses may move away from offering cash services or accepting cash over time, this is unlikely to be caused by a temporary disruption in CIT services, but more likely a part of their longer-term strategy. The Reserve Bank also submits that increased risk of counterfeiting or a retail 'run' on cash are less likely to occur.[190]

4.19. Views on how long it would take for customers to transfer CIT service suppliers varied significantly, in public and confidential submissions, ranging from 3 months to 24 months.[191] The Reserve Bank identified several factors that would influence the extent and duration of any disruption, including the:

- length of notice given by the exiting CIT supplier to its customers
- nature of any contractual terms between the exiting CIT supplier and its customers
- wind up process put in place to manage the exit
- ability of other CIT suppliers to provide services to customers of the exiting CIT supplier, both immediately and following the wind up of the exiting supplier
- effectiveness of customers' business continuity plans.[192]

4.20. Another factor the Reserve Bank identified that may influence whether an exit is disorderly, and its effects, is arrangements the Applicants and Major Banks have in place in conformance with APRA Prudential Standard 231: Outsourcing. The standard requires that all risks from outsourcing material business activities be appropriately managed to ensure that APRA-regulated institutions are able to meet their financial and service obligations to depositors.

4.21. The ACCC also notes that APRA Prudential Standard 232: Business Continuity Management requires APRA-regulated entities (such as banks) to satisfy themselves as to the adequacy of any business continuity plans outsourced service suppliers (such as the Applicants) have in place.

4.22. However, the ACCC received limited feedback on whether this claimed disruption would be likely to be avoided if the Proposed Transaction proceeded. An Interested Party submits that a merger between the Applicants would also likely be associated with disruptions and a significant transition period, likely between 6-24 months.[193]

4.23. Coles submits that a major CIT supplier would be unlikely to exit overnight and would likely have a wind down period where the remaining CIT supplier would have time to scale up its operations.[194] Similarly, the NCR Australia Group and expert report prepared by HoustonKemp on its behalf suggests that a disorderly exit by 1 of the Applicants would be unlikely. In particular, the HoustonKemp report considers it very unlikely that the Applicants would exit from the supply of CIT services in a way that would breach their existing legal obligations, or give rise to a disorganised exit in which customers are not supported, because:

- contractual obligations likely require those services to be provided

[190] Reserve Bank of Australia submission, 28 October 2022, p 13.

[191] A minimum 6 months according to National Australia Bank submission, 28 October 2022, p 7; 6-12 months according to Wesfarmers submission, 28 October 2022, p 4; 24 months according to Commonwealth Bank of Australia submission, 28 October 2022, p 12.

[192] Reserve Bank of Australia submission, 28 October 2022, p 12.

[193] An interested party, 27 October 2022, p 4.

[194] Coles Group Limited submission, 28 October 2022, p 7.

- both parties are multinational companies that operate across sectors and have considerable resources able to be used to meet existing customer commitments. Cost savings from an abrupt cessation would need to be carefully weighed against the prospect of reputational harm that could affect them across those sectors
- an orderly exit would assist in maximising the value of the sale of the assets no longer required
- it appears that both Applicants have excess capacity and provide similar services, so the non-exiting firm would be able to provide services required to rival customers. Additionally, the non-exiting firm would have a strong incentive to start supplying the exiting firm's customers as quickly as possible to maximise profits, and the customers would have an incentive to secure a new supplier
- the Reserve Bank and government would want to prevent a disorderly exit.[195]

4.24. Commander Security submits that it has in the past provided CIT services to banks during times of disruption, and would be available to assist in servicing customers to minimise any disruption caused by an exit.[196]

ACCC's preliminary view

4.25. These submitted public benefits are most relevant to an assessment against a counterfactual where 1, or both, of the Applicants would cease supplying CIT services. As discussed in the ACCC's assessment of the future with and without the Proposed Transaction, the ACCC has not yet reached a view on the likely counterfactual(s) absent the Proposed Transaction. Additionally, the realisation of these public benefits, assessed against a counterfactual where 1 of the Applicants ceased supplying CIT services, is premised on the assumption that they would withdraw their services in a manner that was not managed to avoid or minimise adverse consequences to their customers.

4.26. The ACCC's preliminary view is that if, absent the Proposed Transaction, 1 of the Applicants withdrew their CIT services in a manner that was not managed to avoid or minimise adverse consequences to their customers, this would be likely to disrupt the cash distribution system, and so disrupt access to cash for a period of time. The ACCC considers that disrupted access to cash would affect both businesses and consumers, particularly as cash remains an important payment method for many consumers (as outlined at paragraph 2.43). Therefore, the ACCC considers that if the Proposed Transaction avoids 1 of the Applicants withdrawing their CIT services in a manner that is not managed to avoid or minimise adverse consequences to their customers this would likely constitute a public benefit.

4.27. The ACCC notes that CIT service customers regularly move between suppliers as contracts expire without significant disruption to supply of cash. However, this generally occurs on a customer-by-customer basis which is a much smaller scale than the type of switching that would be required if 1 of the Applicants were to cease supplying services.

4.28. Based on the information received to date, it is not clear that if 1 of the Applicants were to cease supplying CIT services, they would do so in a manner that did not seek to manage any potential adverse consequences for their customers. It is also not clear that there would not be sufficient resources to manage any withdrawal of these

[195] HoustonKemp for NCR Australia Group, pp 16, 37-38.

[196] Commander Security submission, 22 October 2022, p 5.

services. The ACCC considers that an orderly wind down, with advance notice of the withdrawal of services, is likely, because:

- both Applicants have existing contractual obligations they would likely seek to manage
- withdrawing services in a manner that did not seek to manage any potential adverse consequences for customers would likely cause significant ongoing reputational damage to the exiting firm's (and related entities') extensive remaining operations in Australia and/or internationally
- both Applicants have extensive other business operations that could, if they elected to do so, be drawn on to facilitate an orderly withdrawal of services
- major customers would have contingency plans in place to manage disruption of supply
- each Applicant submits that they have significant excess capacity which, the ACCC expects, could be directed to servicing the other Applicant's customers.

4.29. The ACCC considers that there would be costs associated with 1 of the Applicants ceasing to supply CIT services, irrespective of how that process was managed. We also consider that there would be some disruption caused by implementing alternative arrangements for a large number of customers in a short period. The ACCC considers that some of these costs and disruption would be avoided by the Proposed Transaction and that the avoidance of these costs constitutes a public benefit. However, some of these transition costs would be required to transition customers to a merged entity, and therefore would not be avoided by the Proposed Transaction.

4.30. For the reasons noted above, the ACCC considers that the extent of the costs and disruption likely to result from 1 of the Applicants ceasing to supply CIT services is uncertain. Therefore, the ACCC's preliminary view is that, assessed against a counterfactual where 1 of the Applicants would cease supplying CIT services, the Proposed Transaction is unlikely to result in a significant public benefit in the form of avoiding the costs and disruption of 1 of the Applicants ceasing to supply CIT services.

4.31. However, the ACCC notes that if both Applicants were to cease supplying CIT services then the option of switching to the remaining supplier noted above as a factor that would assist in reducing any disruption would not be available. Therefore, the ACCC considers that if both Applicants were to cease supplying CIT services the extent of any resultant disruption would be more significant. The ACCC considers that assessed against this counterfactual the Proposed Transaction is likely to reduce the level of disruption that would occur and that this would be likely to be a material public benefit.

4.32. As noted, the ACCC considers that the Applicants' submission that the Proposed Transaction will maintain confidence in cash as a payment system is directly linked to the proposition that the Proposed Transaction avoids the risk of a withdrawal of CIT services that was not managed to minimise or avoid adverse consequences for customers. Therefore, the ACCC's preliminary view is that:

- assessed against a counterfactual where 1 of the Applicants would cease supplying CIT services it unclear whether the Proposed Transaction is likely to result in a public benefit through maintaining confidence in cash as a payment system

- assessed against a counterfactual where both of the Applicants would cease supplying CIT services the Proposed Transaction is likely to result in a public benefit through maintaining confidence in cash as a payment system.

21. The ACCC invites views and further information on:
    a. Whether, if either Applicant were to cease supplying CIT services, this would cause disruption to the supply of cash and/or reduce confidence in cash as a payment system.
    b. Whether alternative CIT suppliers would be capable of providing interim services to minimise disruption in the event that 1 of the Applicants ceased supplying CIT services.
    c. Whether any factors, including those noted at paragraph 4.28, would be likely to mitigate the risk of the withdrawal of CIT services by 1 of the Applicants causing disruption to the supply of cash.
    d. If the withdrawal of CIT services were to occur at short notice and without an orderly wind down, what the most significant risks are, and whether any measures could be put in place to address these risks.

Improved productive efficiency by reducing duplication of fixed costs

The Applicants' views

4.33. The Applicants submit that the high fixed costs associated with providing CIT services mean that large volumes of cash must be managed to generate efficient and cost-effective returns.[197] The Applicants submit that as cash volumes have significantly declined, and as limited fixed cost reductions are open to either Applicant given major customers require a national service, their average costs of providing CIT services have been increasing.[198] They submit that, absent the Proposed Transaction, additional declines in cash volumes will further increase the average cost of providing CIT services, making maintaining duplicative fixed cost networks increasingly inefficient.[199]

4.34. The Applicants submit that the Proposed Transaction would enable them to combine their CIT services, which will mean greater utilisation and de-duplication of costs. They consider that this will increase productive efficiency and result in significant cost savings, to facilitate improved profitability.[200]

4.35. The Applicants engaged Deloitte to prepare a report on the potential synergies likely to result from the Proposed Transaction. The RBB report notes that Deloitte's estimates that the Proposed Transaction will result in synergies. These synergies are attributable to, among other things, the closure of duplicative Approved Cash Centres and transport hubs, and the disposal of armoured vehicles.[201] For example, Deloitte's analysis indicates that between 20-25 sites could be closed on the basis that each site is 150 kilometres or less from a site belonging to the other Applicant, which

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197 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 94, citing Reserve Bank of Australia, Review of Banknote Distribution Arrangements: Issues Paper, November 2021, p 19.

198 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 140.

199 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 140.

200 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 141.

201 Armaguard and Prosegur application for merger authorisation: Annexure 31 - RBB Economics Expert Report, 27 September 2022, pp 17, 173-175.

comprises 49% of the Applicants' total sites. In addition, the Applicants could dispose of vehicles equivalent to 8% of their combined fleet.[202]

4.36. RBB's report estimates a net present value saving based on the assumption that absent the Proposed Transaction, the 'wasteful duplication' of the Applicants would persist for a further 2 years (at which point 1 of them would likely exit).[203]

Interested parties' views

4.37. Interested parties provide differing views about whether the Proposed Transaction would be likely to result in productive efficiencies and the likely extent of those efficiencies. Several submissions, including some confidential submissions, agree that there are likely to be or could be efficiency gains from the Applicants consolidating their assets and resources.[204]

4.38. Coles submits, however, that increased prices and reduced service levels due to the likely substantial lessening of competition may offset any efficiencies (discussed above at 3.9).[205] NCR Australia Group and Wesfarmers submit that efficiencies may be private, rather than public benefits, as the merged entity may choose to absorb those benefits.[206] An Interested Party also submits there would be a decrease in operational efficiencies for competitor CIT suppliers.[207]

4.39. In addition, HoustonKemp's report for NCR Australia Group considers that the Applicants have not applied the appropriate framework for determining whether the avoidance of fixed costs duplication enabled by the Proposed Transaction would generate public benefits. Rather, HoustonKemp suggests that the RBB report may count as public benefits the avoidance of costs that should more appropriately be described as sunk.[208] As such, HoustonKemp considers that it is not able to discern whether any public benefit is likely to arise as a result of using fewer assets to provide the same level of service.[209]

ACCC's preliminary views

4.40. The ACCC notes the Applicants' submission that if the Proposed Transaction does not proceed 1, or both, of them will likely cease supplying CIT services. If this is the case then, to a large extent, many duplicated fixed costs (other than sunk costs) would be reduced or eliminated even without the Proposed Transaction from the time that 1 of the Applicants ceases supplying CIT services.

4.41. Accordingly, the ACCC's preliminary views below relate to the nature and extent of any public benefits from the Proposed Transaction due to the avoidance of fixed cost duplication for as long as, absent the Proposed Transaction, neither Applicant would cease supplying CIT services.

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202 Armaguard and Prosegur application for merger authorisation: Annexure 31 - RBB Economics Expert Report, 27 September 2022, p 174.

203 Armaguard and Prosegur application for merger authorisation: Annexure 31 - RBB Economics Expert Report, 27 September 2022, fn 347, p 124.

204 An interested party, 27 October 2022, p 4; Coles Group Limited submission, 28 October 2022, p 7; National Australia Bank submission, 28 October 2022, p 7; Giesecke+Devrient submission, 21 October 2022, p 4; Cash Processing Solutions submission, 19 October 2022, p 2;

205 Coles Group Limited submission, 28 October 2022, p 7.

206 NCR Australia Group submission, 28 October 2022, p 42; Wesfarmers submission, 28 October 2022, pp 4-5.

207 An Interested Party, 27 October 2022, p 4.

208 HoustonKemp Report for NCR Australia Group, 28 October 2022, p 38.

209 HoustonKemp Report for NCR Australia Group, 28 October 2022, pp 37-38.

4.42. A merger can improve productive efficiency by making the merged entity more cost effective by increasing economies of scale or scope, allowing better use of existing capacity, reducing cost through asset rationalisation, or through combining complementary production capacities.[210]

4.43. The ACCC's preliminary view is that, compared to both Applicants continuing to operate independently, it is likely that reducing duplicative Approved Cash Centres would generate some productive efficiencies in the supply of CIT services.

4.44. Many of the Applicants' Approved Cash Centres are in close proximity to each other. For example, both Applicants maintain Approved Cash Centres in areas with relatively low populations such as Kalgoorlie, Alice Springs and Darwin. Further, the ACCC's preliminary view is that some of these sites appear to be operating below capacity. Reducing duplicative sites could free up resources, such as land and human resources, for use in other parts of the economy.

4.45. Similarly, the ACCC's preliminary view is that the Proposed Transaction is likely to allow the Applicants to rationalise their fleets of armoured vehicles. However, the extent to which this is likely to generate public benefits is unclear. This is because such vehicles may have little alternative use (i.e., they may largely represent sunk costs). Therefore, the 'freeing-up' of such assets may not offer a great deal of value to the community.

4.46. The extent to which any cost savings are likely to be passed on to customers in the form of lower prices is relevant in considering the weight that the ACCC gives to the benefit resulting from any cost savings. The ACCC's preliminary view is that without the competitive pressure that the Applicants currently exert on each other, the extent to which any cost savings resulting from the Proposed Transaction are likely to be passed on to customers is lower. Therefore, the weight given to any public benefit from the realisation of such cost savings is also lower.

22. The ACCC invites views and further information on:

a. Whether the Proposed Transaction is likely to generate productive efficiencies in the provision of CIT services, for example by reducing duplicative Approved Cash Centres.

b. The extent to which the benefits of any such efficiencies, in the form of cost savings, are likely to be passed through to end customers.

Creating a sustainable entity better placed to invest and ensuring high levels of service

4.47. The ACCC considers that the submitted public benefits of creating a sustainable entity better placed to invest and ensuring high levels of service are linked, as the Applicants submit the second benefit follows from the first. Accordingly, the ACCC has considered these 2 submitted public benefits together.

The Applicants' views

4.48. The Applicants submit that:

- there is currently an oversupply of cash infrastructure which has led to a large amount of excess capacity in the cash distribution system

210 Merger authorisation guidelines, p 34

- in response to this oversupply, they have offered customers price reductions which are affecting the Applicants' ability to generate free cash flows[211]
- their financial position has led them to cut costs in a way that is affecting the level of service they can offer customers which, absent the Proposed Transaction, will likely continue to decline[212]
- without the generation of free cash flows, they have limited capacity and ability to make necessary capital investments.[213]

4.49. The Applicants submit that the Proposed Transaction will create certain economies of scale which will enable them to maintain service levels and undertake investments which are not currently possible.[214] By allowing the Applicants to generate free cash flows, the Applicants would be able to invest in wholesale cash infrastructure and would be in a better position to innovate.[215]

4.50. The Applicants submit that investment is less likely to occur in the event of a disorderly exit by one of them. This is because of the length of asset lives and the need to earn positive cash flows over their lifetime to recoup investment costs.[216]

Interested parties' views

4.51. Interested parties provide limited views on these public benefits. Of those that did comment, a number note that although the Proposed Transaction may enhance the merged entity's ability to invest, the merged entity is unlikely to have the incentive to invest. Specifically, they note that incentives to invest are largely driven by competition, therefore the removal of the main competitor in CIT services will reduce the merged entity's incentive to invest.[217] The Australian Hotels Association also submits that a merged entity is unlikely to have the incentive to innovate to improve its service offerings, or where it does find these efficiencies, to pass those savings on to customers.[218]

4.52. The Reserve Bank submits that if the Applicants are able to better optimise transport routes, cash collection and deliveries could be more frequent and service levels would improve. If, however, fewer depots and trucks meant that greater distances needed to be travelled for some businesses or locations, the frequency of collection and deliveries could fall.[219] Coles submits that it expects any contract renewal would involve a reduction in service levels, in addition to price increases.[220]

4.53. The ACCC also received 1 confidential submission which states that the Proposed Transaction may provide an opportunity for industry participants to leverage new and emerging technologies.

211 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 142.

212 Armaguard and Prosegur application for merger authorisation, 27 September 2022, pp 144-145.

213 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 142.

214 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 145.

215 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 142, p 144.

216 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 143.

217 NCR Australia Group submission, 28 October 2022, p 6; Multi-store retail chain submission, 31 October 2022, p 4; Commonwealth Bank of Australia submission, 28 October 2022, p 12.

218 Australian Hotels Association submission, 28 October 2022, p 4.

219 Reserve Bank of Australia submission, 28 October 2022, p 14.

220 Coles Group Limited submission, 28 October 2022, p 7.

ACCC's preliminary views

4.54. The ACCC notes that the ongoing investment that the Applicants submit will result from the Proposed Transaction is based on their expectation that they will be better able to generate free cash flows. This expectation appears to assume that removing competition between the Applicants will afford greater opportunities to generate these cash flows, by reducing the need to offer significant price reductions to customers.

4.55. In principle, the ACCC considers that substantial commercial entities such as the Applicants ought to have the ability and incentive to undertake investments that are reasonably expected to be profitable, even if their current free cash flows are weak. However, to the extent that the Applicants' claims that stronger free cash flows are necessary for them to invest is valid, the ACCC considers that this opportunity would also be available in a counterfactual where either Applicant ceased supplying CIT services.

4.56. Accordingly, the ACCC's preliminary views below relate to any potential for the Applicants to be better placed to invest and ensure high levels of service if the Proposed Transaction proceeds, as compared to both Applicants continuing to supply CIT services independently of each other.

4.57. The ACCC's preliminary view is that while the merged entity may generate increased free cash flows, absent the competitive pressure that the Applicants currently exert on each other, it would likely face limited incentives to invest or maintain high levels of service to customers. The merged entity would only be expected to undertake such investment to the extent that doing so would maximise its profits as a monopoly major supplier of CIT services. This may be the case if, for example, wholesale and full-service retail CIT customers were willing to pay considerably higher prices than they presently do for the maintenance of frequent cash collection and processing services.

4.58. Therefore, to the extent that increased investment by the merged entity to maintain or improve services constitutes a public benefit attributable to the Proposed Transaction, it would likely be accompanied by higher prices over time than might otherwise be expected from the reduction in competition brought about by the transaction.

4.59. The ACCC considers that any constraint non-cash payments impose may not be sufficient to provide the merged entity with incentives to invest. As noted above at paragraph 3.53, the ACCC's preliminary view is that the threat of customers switching to non-cash payments is only likely to impose a limited constraint on CIT service suppliers, given the underlying baseline demand for cash.

4.60. Therefore, the ACCC's preliminary view is that, as compared to both Applicants continuing to supply CIT services independently of each other, 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.

4.61. Further, for the reasons discussed at paragraphs 4.92 to 4.98, the ACCC considers that the Proposed Transaction may result in a public detriment in the form of a reduction in the level of CIT services, particularly to regional areas. The ACCC does note that, compared to a counterfactual where both Applicants cease supplying CIT services, the Proposed Transaction is likely to mean the Applicants are better placed to invest in maintaining CIT services. Assessed against this counterfactual, the ACCC considers that this is likely to be a significant public benefit.

23. The ACCC invites views and further information on:

  a. The extent to which the risk of customers expanding their adoption of non-cash payment options at the expense of cash payments is likely to incentivise investment in CIT services by the merged entity

  b. The extent to which the merged entity is likely to have incentives to:

    i. invest in new technology

    ii. develop new and innovative solutions

  c. maintain high levels of service for its customers.

Avoiding cost and uncertainty associated with moving to a new regulatory model

The Applicants' views

4.62. The Applicants submit that if the Reserve Bank were to introduce new regulation for the cash distribution system, this would cause significant transaction costs, including due to the likely length of time required to consult on any proposed solution.[221] The Applicants submit that the Proposed Transaction would likely result in a public benefit by achieving the Reserve Bank's objectives of ensuring that the CIT industry is effective, efficient, sustainable and resilient without the need for the development of a regulatory solution.[222]

Interested parties' views

4.63. The Reserve Bank submits that this is not a benefit likely to be realised from the Proposed Transaction, as at this stage the Reserve Bank is not proposing to move to a new regulatory model for cash distribution and the core terms and conditions for banknote distribution agreements are expected to largely remain in place.[223]

4.64. As noted in paragraph 3.67, the Reserve Bank states that it does not consider CIT services to be within the scope of its payment system regulatory purview as currently set out in the *Payment System (Regulation) Act 1998*.

ACCC's views

4.65. The ACCC does not consider that avoiding costs associated with a new regulatory model is a public benefit that is likely to result from the Proposed Transaction. The Reserve Bank states that it is not, at this stage, proposing to move to a new regulatory model for cash distribution. Nor does it appear that the Reserve Bank considers it has the power to do so in the manner contemplated by the Applicants.

Other public benefits claimed

4.66. The Applicants also claim that the Proposed Transaction will likely result in 3 other public benefits: reduced carbon footprint; maintenance of current industry safety standards; and preserving the complementary expertise of both Applicants.

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221 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 148.

222 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 148.

223 Reserve Bank of Australia submission, 28 October 2022, p 11.

Reduced carbon footprint

4.67. The Applicants submit that the vehicle synergies stemming from the Proposed Transaction would reduce the Applicants' carbon footprint, resulting in an environmental benefit, estimated to be an 11% reduction in the Applicants' annual scope 1 emissions.[224] The Applicants note other sources of emissions reductions, including reduced electricity from closing duplicative authorised cash centres.[225]

4.68. Interested parties provided limited views on this claimed public benefit. A multi-store retail chain considered the reduction would be minor.[226] NCR Australia Group submits that this public benefit should be given little weight, because it would likely be achieved if 1 of the Applicants exited.[227]

4.69. The ACCC considers that if, without the Proposed Transaction, 1 of the Applicants ceased supplying CIT services, the consequential reduction in vehicle trips and operating Approved Cash Centres would be likely to result in a similar reduction in carbon footprint.

4.70. Compared to both Applicants continuing to operate independently of each other, the ACCC's preliminary view is that the Proposed Transaction could reduce the Applicants' carbon emissions, due to resources (vehicle trips and Approved Cash Centres) being de-duplicated. However, the extent to which this constitutes a significant public benefit is unclear, given the reduction in carbon emissions is likely to be small.

Maintaining the Applicants' security and safety standards

4.71. Absent the Proposed Transaction, the Applicants consider there would likely be a reduction in overall safety standards across CIT services. Consequently, they submit a benefit likely to result from the Proposed Transaction is the maintenance of the Applicants' high standards for safety and security.[228] Interested parties did not provide views on this claimed public benefit.

4.72. The ACCC's preliminary view is that if, without the Proposed Transaction, 1 of the Applicants ceased supplying CIT services, the impact on overall security and safety standards is unclear. As such, it is unclear whether or not this would constitute a public benefit.

4.73. In this respect the ACCC notes that, if 1 of the Applicants ceased supplying CIT services:

- many customers would be expected to switch to the remaining Applicant
- customers who switched to alternative suppliers other than the remaining Applicant would be expected to include conditions in their contracts requiring safety standards appropriate to their business needs. To the extent that some alternative suppliers do not currently meet those standards, this may prompt an improvement in their safety standards, which would also benefit existing customers, rather than an overall decline in safety standards.

4.74. The ACCC also considers that this public benefit would be unlikely to be realised by the Proposed Transaction if, without the merger, both parties continued to operate

224 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 146.

225 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 146.

226 Multi-store retail chain submission, 31 October 2022, p 4.

227 NCR Australia Group submission, 28 October 2022, p 43.

228 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 152-153.

independently of each other. In this case it would be expected that they would maintain their existing security and safety standards.

4.75. However, if without the merger both Applicants ceased supplying CIT services then the disruption caused may, at least in the short term, result in a reduction in security and safety standards. Assessed against this counterfactual the ACCC's preliminary view is that the Proposed transaction is likely to result in a public benefit through maintaining higher security and safety standards.

Preserving the complementary expertise of both Applicants

4.76. The Applicants submit that if the Proposed Transaction does not proceed, the CIT industry would lose the expertise of 1 of the Applicants. The Applicants submit that Prosegur brings expertise in international best practices, innovation and efficiencies, having a presence across 4 continents and 20 countries.[229] They also submit that Armaguard's ongoing participation brings its deep expertise in logistics, as well as its larger-scale geographic reach, closer relationships and deep understanding of the local Australian market.[230] Interested parties did not provide views on this claimed public benefit.

4.77. The ACCC's preliminary view is that if, without the Proposed Transaction, 1 of the Applicants ceased supplying CIT services in Australia, a degree of expertise would be lost. The ACCC considers that preserving this expertise is a public benefit.

4.78. However, the ACCC's preliminary view is that whether this is likely to constitute a significant public benefit is unclear because it is unclear what important expertise either Applicant holds that the other does not, or could not, acquire.

4.79. The ACCC also considers that this public benefit would be unlikely to be realised by the Proposed Transaction if, without the merger, both parties continued to operate independently of each other.

4.80. The ACCC does consider that, compared to a scenario in which both Applicants ceased supplying CIT services, the Proposed Transaction is likely to result in a public benefit by maintaining their industry expertise.

24. The ACCC invites views and further information on:

a. Whether the Proposed Transaction is likely to generate environmental benefits from reduced carbon emissions.

b. Whether 1 of the Applicants ceasing to supply CIT services is likely to result in lower safety standards from customers switching to alternative CIT suppliers.

c. Whether either Applicant has unique expertise in the operation of a CIT business that would be likely to be lost if they ceased supplying CIT services.

ACCC's preliminary views on public detriments

4.81. As noted at paragraph 4.4, the definition of public detriment is broad and can include any impairment to the community generally and any harm or damage to the aims pursued by society.

4.82. The ACCC considers the most significant public detriments from the Proposed Transaction are likely to be the competitive detriments that may be realised if the Applicants were to cease competing against each other to supply CIT services.

229 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 155.

230 Armaguard and Prosegur application for merger authorisation, 27 September 2022, p 155.

Broadly, as discussed at paragraphs 3.12 and 3.13, the ACCC is continuing to consider whether the Proposed Transaction may provide the Applicants with the ability and incentive to substantially raise prices and/or reduce the level of service offerings (for example, pickup frequency, geographic scope of pickup routes and processing times) compared to the scenario where the Proposed Transaction does not proceed. The ACCC considers that if this were the case this would constitute a substantial public detriment.

4.83. The ACCC is also considering 2 other public detriments:

- less resilience in wholesale cash distribution
- reduced access to cash, particularly in regional areas.

4.84. The ACCC considers that these potential public detriments are most relevant considered against a counterfactual where both Armaguard and Prosegur will continue to operate independently of each other. This is because they are potential public detriments that are more likely to arise if there is a single major supplier of CIT services rather than 2 and therefore, if 1 of the Applicants is likely to cease supplying CIT services if the merger does not proceed, they may be realised both with and without the merger.

Less resilience in wholesale cash distribution (greater difficulties in managing supply disruptions)

4.85. The Reserve Bank submits that the Proposed Transaction could result in a detriment in the form of less resilience in cash distribution. This is because it is possible that having a single CIT supplier responsible for wholesale cash distribution could increase risks associated with disruptions such as natural disasters, employee strikes, or IT services.[231]

4.86. The Reserve Bank considers it would be important to ensure that the remaining CIT supplier has robust risk management and contingency arrangements. It also notes that smaller CIT suppliers could provide resilience for localised incidents.[232]

4.87. The ACCC notes that having 1 major supplier of CIT services rather than 2 removes the main alternative option for sourcing cash in the event of a business-specific supply disruption.

4.88. In this respect, the ACCC notes that:

- As discussed above, APRA Prudential Standard 231: Outsourcing, requires APRA-regulated institutions to identify, assess, manage, mitigate and report on risks associated with outsourcing to meet the institution's financial and service obligations to its depositors, policyholders and other stakeholders.[233]
- Resilience in wholesale cash distribution is important to ensuring continued access to cash. As noted in the Reserve Bank's Review Bank Distribution Arrangements: Issues Paper, cash is an important payment method for members of the community, and high cash users are more likely to be older, have lower household income, and/or have limited internet access.[234]

4.89. The ACCC considers that having 2 major suppliers of CIT services likely assists in maintaining sufficient contingency plans. Therefore, compared to a counterfactual

231 Reserve Bank of Australia submission, 28 October 2022, p 15.

232 Reserve Bank of Australia submission, 28 October 2022, p 15.

233 APRA Prudential Standard 231: Outsourcing, p 6.

234 Reserve Bank of Australia, Review of Banknote Distribution Arrangements: Issues Paper, November 2021, p 4.

where both Applicants continued to operate independently of each other, the ACCC's preliminary view is that the Proposed Transaction is likely to make it more difficult and costly to maintain such contingency plans.

4.90. Further, in the event of an actual disruption, the disruption is likely to be less well managed, magnifying the consequences of any disruption in terms of reduced access to cash.

4.91. Accordingly, the ACCC is considering whether, compared to a counterfactual where both Applicants continue to operate independently of each other, the Proposed Transaction is likely to result in a public detriment in the form of making it more difficult and costly to maintain contingency plans and/or magnifying the consequences of any disruption in terms of reduced access to cash.

Reduced access to cash, particularly in regional areas

4.92. The ACCC's preliminary view is that the Proposed Transaction could result in a public detriment in the form of a reduction in the level of CIT services or an increase in prices in regional areas compared with if the Proposed Transaction did not proceed. Having only one major supplier of CIT services is likely to reduce the incentive of that supplier to maintain the same level of service and/or price to regional areas.

4.93. While Armaguard and Prosegur continue to compete for national contracts, this competitive tension is likely to mean they will continue to service less profitable routes, on terms required by customers, in order to maintain these contracts. However, absent this competitive pressure, and without an alternative option available to these customers, there is a risk that the merged entity would raise prices to provide services on such routes, not provide the same level of service as they currently do or not service some routes at all.

4.94. In this respect, the ACCC considers that any reduction in service levels as a result of moving from 2 to 1 major suppliers of CIT services, particularly in terms of frequency and breadth of routes operated, would likely be particularly acutely felt in regional areas. This is largely because residents in metropolitan areas are likely to have a wider range of alternative options to access cash, in comparison to residents of regional areas, whose options may be very limited. Therefore, the ACCC's preliminary view is that this could constitute a substantial public detriment.

4.95. The concept that reduced access to cash would be a detriment to individuals in remote and regional areas is supported by reports published regarding access to cash. As discussed above at paragraph 2.43, the Reserve Bank has identified that people living in regional areas had a significantly greater preference for cash relative to those in metropolitan areas, and are more likely to be older, have lower household income, and/or have limited internet access.[235] The Reserve Bank also identified that residents in remote areas often have to travel longer distances to access cash, and as cash access points tend to be more isolated, residents of these regions are more vulnerable to any further removal of cash access points.[236]

4.96. In addition, the Final Report for the Regional Banking Taskforce, which was established to assess the impact of regional bank branch closures, found that access to cash is likely to be a particular issue in remote locations.[237]

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235 Reserve Bank of Australia, Cash Demand during COVID-19, March 2021, pp 8-9; the Reserve Bank considered these preferences may be due to residents of regional areas tending to be older and having inferior internet access, which are factors associated with higher cash use, rather than because of location of residence alone, see: Reserve Bank of Australia, Cash Use in Australia: Results from the 2019 Consumer Payments Survey, June 2020, p 45.

236 Reserve Bank of Australia, How Far Do Australians Need to Travel to Access Cash?, June 2021, pp 13, 15.

237 Commonwealth Treasury, Regional Banking Taskforce Final Report, September 2022, p 15.

4.97. The Taskforce made recommendations aimed to address these issues, including maintaining access to cash, such as through Australia Post's Bank@Post and banks continuing to provide access to fee-free ATMs in remote communities. The ACCC notes that the Proposed Transaction could have the effect of making these recommendations more difficult to implement if, following the Proposed Transaction, service levels in these areas were reduced.

4.98. Accordingly, the ACCC is considering whether, compared to a counterfactual where both Applicants continued to operate independently of each other, the Proposed Transaction is likely to result in a public detriment in the form of reduced access to cash in regional areas.

25. The ACCC invites views and any further information on:

a. Whether the Proposed Transaction is likely to affect the ability for banks and remaining CIT suppliers to respond to disruptions and maintain sufficient business contingency plans.

b. Whether the Proposed Transaction could reduce access to cash in regional and remote areas.

c. If access to cash was reduced in regional areas, the effect this would have on vulnerable members of the community.

d. Any other detriments you consider are likely to result from the Proposed Transaction.