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Australian Competition & Consumer Commission
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Dear Ms Burns,

Armaguard/Prosegur application for merger authorisation

Thank you for the invitation to make a submission regarding the Armaguard/Prosegur application for merger authorization. Our members are seriously concerned about the likely anti-competitive effects of the merger if approved.

1 BACKGROUND

The Australian Hotels Association (AHA) is the national voice of Australia's vibrant hotel industry. The AHA is an organisation of employers in the hospitality industry, federally registered under the *Fair Work (Registered Organisations) Act 2009*. The AHA represents more than 5,000 members across Australia with a network of branches based in every state and territory.

The overwhelming majority of Australian hotels are owner-operated small businesses serving their local communities, with a proportion of hotels forming part of national or international chains. Hotels are in every city and town in the country. AHA members invest millions in capital infrastructure, employ over 250,000 Australians, and assist over 50,000 community groups.

Across the country, AHA's members rely on the cash-in-transit (CIT) services provided by both Prosegur and Armaguard to ensure that cash used at their venues is safely and reliably stored and transported. These functions are critical to the day-to-day operations of hotels, as well as the safety of their staff and the servicing of their customers, who use cash extensively when they gather in hotels to eat, drink, participate in gaming and wagering, and attend live music events.

Our members are concerned about the likely anti-competitive effects of the merger on the market for CIT services. The concentration of the two largest providers of CIT services in Australia will create a monopolist provider of CIT services. In the absence of any effective competitive constraints, Armaguard/Prosegur will likely have the ability and incentive to increase the prices and / or decrease the quality of the CIT services provided to its customers. Those customers — which include AHA members — will have no means of countering those post-merger changes in price and quality of service. Our members have raised the following concerns:

2 THE MERGER APPLICANTS ARE EACH OTHER'S CLOSEST COMPETITORS

Some members, particularly larger operators, have observed that Prosegur and Armaguard are the only two companies that they invite to tender for CIT services. This is because no other supplier has the national reach, trained staff and armoured vehicles that are essential for the safe and reliable provision of CIT services.

Some members also noted that after the merger between Prosegur and Toll, they switched from Armaguard to Prosegur, and that prices dropped significantly for CIT services after Prosegur entered the market. It is also unclear how the merger applicants could support the 'forced' transition of all their respective customers at the same time to Armaguard/Prosegur and maintain continuity of service.

3 THE MERGER WILL REDUCE CUSTOMERS' CHOICE, WITH NO (OR LIMITED) ABILITY TO SWITCH

Without the threat of losing customers to alternative providers of CIT services, the merged Armaguard/Prosegur will not face any constraint on its ability to raise prices. Armaguard/Prosegur would have ordinary commercial incentives to increase prices to recoup the financial losses as a result of the decline of cash usage (including during the COVID-19 pandemic), or simply to increase margins. Similarly, Armaguard/Prosegur would be able to decrease the quality of its services (so as to reduce costs) without any competitive consequence.

AHA members are seriously concerned that they will have no option other than accepting any price increases that are imposed by Armaguard/Prosegur.

These concerns are exacerbated by the fact that AHA members cannot reduce their reliance on Armaguard/Prosegur to provide CIT services. It is not a feasible or viable option for AHA members to in-source and start to provide CIT services to themselves. Hotels would not be able to comply with the insurance and licensing requirements, and would not have the armoured vehicles and trained staff that are essential to guarantee the safe transit of cash, as well as the safety of hotel employees and patrons. There are also substantial fixed costs to obtain the requisite infrastructure (such as a national fleet of armoured vehicles and properly trained staff), as discussed at point 3 below.

Major customers and hotel/hospitality operators cannot readily switch to using smaller CIT service providers who are unlikely to have the depots, routes and processes needed to meet large customers' requirements. For example, smaller suppliers without as many depots would need to take cash deposits directly to banks, which is more expensive and does not optimise truck routes. For similar reasons, AHA members doubt whether major customers of CIT services would be in any position to sponsor a new entrant that can offer the scale and national reach they require, particularly given the current labour shortages affecting so many industries.

Finally, it is not appropriate or practically feasible for AHA members to prevent or discourage patrons from using cash to pay for their food, drinks, wagering and gaming in hotels. Even if it were appropriate and practical, it would be very unlikely that hotel patrons would stop using cash altogether, especially given the preference for cash over digital payment methods among certain demographics (such as elderly consumers or those who have difficulty getting access to forms of digital payments). Even if there is a decline in the use of cash overall, for so long as *any* patrons use cash, AHA members will require CIT services to avoid having to hold cash on-site, which would create significant safety risks for employees (such as burglaries) and financial detriments (through the inability to earn interest).

AHA members are seriously concerned that the loss of choice and bargaining power resulting from the merger ensures they will simply have to accept any increase in prices or decrease in service quality imposed by Armaguard/Prosegur.

4 THE MERGER WILL LIKELY INCREASE BARRIERS TO ENTRY AND EXPANSION, WHICH ARE ALREADY SIGNIFICANT

AHA considers that providers of CIT services other than Armaguard and Prosegur do not have the infrastructure (such as a large fleet of armoured vehicles and appropriately trained staff) or the national reach that is necessary to provide services to the major acquirers of CIT services, such as the four major banks, and major retailers like Woolworths and Coles.

There are substantial fixed costs associated with obtaining the necessary infrastructure and reach to provide CIT services to those major customers. Those costs are likely to prevent new entrants and existing smaller suppliers from being able to obtain the necessary infrastructure to effectively compete with Armaguard/Prosegur.

The merger is likely to make it harder for other CIT providers to enter the market and expand because they will have to compete with a merged Armaguard/Prosegur benefiting from increased operating and fleet synergies and economies of scale.

The possible public benefits from the merger are not likely to outweigh the detriments. In contrast to the clear and substantial detriments that AHA members are concerned are likely to result from the merger, some of the purported public benefits outlined in the merger parties' application rely on untested assertions about the declining use of cash in the economy. Some members disagree with the merger application's claim about the extent and likely duration of the declining use of cash.

5 PUBLIC BENEFITS RELATING TO THE DECLINE OF CASH ARE NOT CLEARLY MADE OUT

The merger parties' application asserts that demand for CIT services is irreversibly declining because of consumers' reduced usage of cash, which was exacerbated by the COVID-19 pandemic. Although cash usage has declined in recent years, it is too early to say that the decline will continue, and at the rate of decline seen during the pandemic. For example, there is some data that support the proposition that cash usage is in fact levelling out, and reasons to suggest that it could be recovering to pre-pandemic levels as consumers readjust their habits in response to lower health risks from handling cash.

6 LONG-TERM PUBLIC DETRIMENTS RESULTING FROM THE SUBSTANTIAL LESSENING OF COMPETITION

As discussed above, the loss of competition between close rivals will likely lead to increased prices and reductions in service quality for customers of CIT services. Those are considerable competitive and public detriments.

Armaguard/Prosegur's ability to rely on those methods to boost profitability also means that it will not be incentivised to innovate in the way that it provides CIT services, or in the way that it develops new business models or services that could improve or replace CIT services.

For example, we are aware that Prosegur has put forward innovative proposals to AHA members to optimise their routes and reduce their costs, including offering to reduce the number of collections, offering cash as a service (i.e. paying customers the interest they are not receiving from having the money in the bank), or recycling cash between local customers. Armaguard/Prosegur is unlikely to have the incentive to innovate to improve its offerings, or where it does find efficiencies, pass those savings onto customers. These are additional public detriments that are likely to result from the merger.

7 FORCED EXIT OF EITHER MERGER PARTY

The parties' public interest argument that without the merger, one of the parties would be forced to exit the market due to unprofitability, should be reconsidered in light of the above mentioned innovation proposals. The new business models that Prosegur is proposing to customers indicates that there are other ways to overcome the challenges presented by reduction in cash usages. There are more proportionate, less anti-competitive ways (than allowing a 2:1 merger), to solve the cash reduction problems and the impact on profitability. If market forces were allowed to run their course we would expect to see both merger parties improving respective profitabilities through innovations.

8 SHORT-TERM PUBLIC DETRIMENTS RESULTING FROM THE TRANSITION OF CUSTOMERS

The merger will create considerable short-term instability and interruption in the provision of CIT services as all customers of one entity will have to migrate at the same time to Armaguard/Prosegur. It is unclear that Armaguard/Prosegur will have sufficient capacity to manage this transition given the considerable demands on staff, equipment and organisational systems. Any loss in safe and reliable access to CIT services during this transition period would have a major detrimental impact on AHA members and their customers, and result in broader public detriment, including to consumers.

Thank you for the opportunity to have made this submission.

Your faithfully,



STEPHEN FERGUSON
AHA NATIONAL CEO