Section 1 – The Definition of GIPSA's Captive Supply Statistics

When used in the fed cattle industry, the term "captive supply" generally refers to cattle that are committed to or are owned by a packer before they are ready for slaughter. GIPSA defines captive supply as livestock that is owned or fed by a packer more than 14 days prior to slaughter, livestock that is procured by a packer through a contract or marketing agreement that has been in place for more than 14 days, or livestock that is otherwise committed to a packer more than 14 days prior to slaughter.

GIPSA's annual Packers and Stockyards Statistical Report provides statistics on slaughtered cattle that packers reported were packer fed or were procured through forward contracts or marketing agreements. These GIPSA statistics, and their commonly cited sum as a percentage of the total cattle slaughter, will be referred to in this report as GIPSA's captive supply statistics.

GIPSA and its predecessor agencies have reported on some elements of captive supply since well before the term "captive supply" was coined. GIPSA has reported on packer feeding in a data series extending back to 1954.[3] In 1988, USDA's Packers and Stockyards Administration (the immediate predecessor to GIPSA's Packers and Stockyards Programs) began to collect data on cattle purchases through forward contracting, marketing agreements and other advance purchase methods.

GIPSA's authority to obtain information concerning packer procurement of cattle comes from the Packers and Stockyards (P&S) Act of 1921. Section 401 of the P&S Act requires packers to keep records that fully and correctly disclose all transactions involved in their business. (7 U.S.C. 221.) Section 402 of the P&S Act provides that certain provisions of the Federal Trade Commission (FTC) Act are made applicable to the jurisdiction, power and authority of the Secretary of Agriculture under the P&S Act. These provisions of the FTC Act include authority to gather and compile information from packers and to require packers to file annual or special reports. (7 U.S.C. 222.) Based on this authority, GIPSA requires that packers file annual reports. (9 CFR 201.97.)

Packers that purchase at least $500,000 of livestock for slaughter and slaughter more than 100,000 steers and heifers annually are required to report to GIPSA on their total slaughter and on the number of steers and heifers procured under various procurement methods. GIPSA publicly reports the aggregated procurement activities of the largest 15 packers. In 1999, 16 packers met the reporting criteria and filed annual reports with GIPSA. Section 5 of GIPSA's Annual Report of Packers, Form P&SP-125 (see figure 1), the reporting form completed by these packers, has sections for reporting monthly slaughter of livestock procured under "contract," "marketing agreement," "packer fed," and "other." On the reporting form, GIPSA defines the procurement categories as follows: [4]

[3] See, for example, USDA, *Packer Feeding of Cattle – Its Volume and Significance, Marketing Research Report No. 776*, November 1966.

[4] From the instructions to Section 5, "Livestock Feeding and Contracting Activities," on GIPSA's Annual Report of Packers form (Form P&SP-125, page 4).

- Contract -- Fixed price or basis contract.

- Marketing Agreement -- Agreement to purchase livestock at a future date with the price to be determined at or after the time of slaughter.

- Packer Fed -- Include all company owned cattle fed for slaughter, whether custom fed or fed in a company owned or operated lot and any partnership, joint venture, or other feeding arrangement.

- Other -- Any livestock purchased over two weeks in advance of slaughter and not listed [as contract, marketing agreement or packer fed purchases].

The Other category is intended to identify all captive supply cattle that are not identified by the other three categories. On rare occasions, packers have reported a few cattle in the Other category. GIPSA reports Contract, Marketing Agreement and Other cattle as Forward Contract and Marketing Agreement cattle in its Packer and Stockyards Statistical Report.

In June 2001, GIPSA published descriptions for these procurement categories and provided examples of them in *Assessment of the Cattle and Hog Industries, Calendar Year 2000*: [5]

> Marketing Agreements – Marketing agreements, which may be written or verbal, establish an ongoing relationship for the sale of fed cattle, rather than negotiating single-lot transactions.[6] They often include minimum and maximum numbers of head to be delivered per unit of time, delivery specifications, auditing practices, and pricing method. Pricing often is by formula, based on average prices for other cattle slaughtered at the plant or publicly reported prices, with premiums and discounts applied for differences in cattle quality.
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> Marketing agreements generally permit the seller substantial influence over the week of delivery, while the packer usually determines the day of delivery within the week. In a typical marketing agreement, the feedlot manager will notify the packer buyer that the feedlot is ready to deliver a specified number of head for slaughter under the agreement the following week. The buyer may make a visual estimate of the cattle quality and agree on a delivery day.

[5] USDA, GIPSA. *Assessment of the Cattle and Hog Industries, Calendar Year 2000*, April 2001.
[6] Ted Schroeder and Rodney Jones, "Captive Supply in Fed Cattle Markets," *White Paper on Status, Conflicts, Issues, Opportunities, and Needs in the U.S. Beef Industry, Research Bulletin 5-99*, Research Institute on Livestock Pricing, Blacksburg, VA, May 1999. (As cited in GIPSA's *Assessment of the Cattle and Hog Industries.)*

Figure 1. GIPSA's Annual Report of Packers

SECTION 4. *(Continued)* **- - PROCUREMENT OF LIVESTOCK FOR SLAUGHTER.** Include your slaughter livestock procurement activities and those of the subsidiaries and affiliated companies reported in Section 1. Item 7 - If you reported two or more plants under Section 3, Item 1, also submit a separate Supplemental Report (FORM P&SP-125-1) for each plant. Item 1 through 11, report numbers of livestock by species.

ITEM	NUMBER OF HEAD SLAUGHTERED					
LIVESTOCK PURCHASED BOTH LIVE WEIGHT AND CARCASS WEIGHT PURCHASES:	CATTLE		CALVES	HOGS	SHEEP	OTHER
	Steers and Heifers	Cows and Bulls				
5. LIVESTOCK PURCHASED FROM OTHER PACKERS.						
6. LIVESTOCK SOLD.						
7. LIVESTOCK ON HAND FOR SLAUGHTER OR FEEDING AT THE END OF THE REPORTING PERIOD.						
8. TOTAL LIVESTOCK SLAUGHTERED.						
9. OF TOTAL LIVESTOCK SLAUGHTERED, NUMBER PURCHASED AND PAID FOR ON A DRESSED WEIGHT OR A CARCASS MERIT BASIS?						

10. DO YOU OWN OR OPERATE A SCALE ON WHICH YOU WEIGH LIVESTOCK PURCHASED FOR SLAUGHTER? ☐ YES ☐ NO

11. DO YOU USE ANY TYPE OF ELECTRONIC EVALUATION DEVICE *(other than a scale)* FOR PAYMENT DETERMINATION? ☐ YES ☐ NO IF YES, TYPE OF EQUIPMENT AND MANUFACTURER.

SECTION 5. • LIVESTOCK FEEDING AND CONTRACTING ACTIVITIES ***(include your domestic livestock feeding activities and those of the subsidiaries and affiliated companies reported in Section 1 Item 7.)***

	NUMBER OF HEAD *(removed from feed for slaughter during reporting period)*				
1. LIVESTOCK FED BY YOU.	STEERS AND HEIFERS	COWS AND BULLS	CALVES	HOGS	SHEEP

	NUMBER OF HEAD *(removed from feed for slaughter during reporting period)*				
2. LIVESTOCK OWNED BY YOU, BUT FED BY OTHERS	STEERS AND HEIFERS	COWS AND BULLS	CALVES	HOGS	SHEEP

3. COMPLETE SEPARATE FORM FOR EACH PLANT AND SPECIES - *(To be completed for all plants where firms annual total slaughter is greater than 100,000 steers and heifers, 100,000 sheep, or 1,000,000 hogs)*

DELIVERY DATE	CONTRACT 1/	MARKETING AGREEMENTS 2/	PACKER FED 3/	OTHER 4/	TOTAL SLAUGHTERED FOR MONTH
JANUARY					
FEBRUARY					
MARCH					
APRIL					
MAY					
JUNE					
JULY					
AUGUST					
SEPTEMBER					
OCTOBER					
NOVEMBER					
DECEMBER					
TOTAL					

1/ FIXED PRICE OR BASIS CONTRACT.

2/ AGREEMENT TO PURCHASE LIVESTOCK AT A FUTURE DATE WITH THE PRICE TO BE DETERMINED AT OR AFTER THE TIME OF SLAUGHTER.

3/ INCLUDE ALL COMPANY OWNED CATTLE FED FOR SLAUGHTER, WHETHER CUSTOM FED OR FED IN A COMPANY OWNED OR OPERATED LOT AND ANY PARTNERSHIP, JOINT VENTURE, OR OTHER FEEDING ARRANGEMENT.

4/ ANY LIVESTOCK PURCHASED OVER TWO WEEKS IN ADVANCE OF SLAUGHTER AND NOT LISTED IN COLUMNS 1,2, OR 3.

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Forward Contracts – A packer and seller who enter into a forward contract agree upon future delivery of a specific lot or quantity of fed cattle to the packer. Price may be fixed when the contract is entered into, but usually the parties agree to use a pricing formula that uses other information, such as futures market prices or publicly reported prices, to determine the base price in the contract. When the price is based on futures contract prices, the parties agree on a differential from futures market prices for a specified futures contract month. The differential is called the basis; hence these contracts are commonly referred to as "basis contracts." Premiums and discounts are applied for differences in animal quality or other non-quality-related factors.

In a typical basis contract, feedlots and packers agree on a delivery month, the specific cattle to be delivered, cattle quality standards, and the price basis. The seller may lock in the price by selecting the date when the futures price will be locked, if selected before the delivery month. For example, a feedlot may place cattle on feed in March to be ready for delivery in June. The feedlot and the packer agree on a delivery month (June), a futures-contract month (June), quality standards, and a basis (-$2 per cwt., for example). As the delivery month approaches, the seller notifies the packer of the day he or she desires to lock in the price. The locked price is determined by applying the basis to the futures market price for that date. The packer and feeder agree on a delivery date and time.

* * * * *

Packer Feeding – Packers slaughter some cattle that they own and feed themselves, either in their feedlots or in custom feedlots. In some instances, the feedlot may be owned by a subsidiary of the packing firm, or by a subsidiary of a separate parent company of the packer. In some instances, packers may enter into joint ventures, sharing ownership of cattle with individuals or with feedlots where the cattle are fed. A joint venture is a profit sharing agreement in which the feeder and packer share the costs and revenues. When packer-owned cattle are ready for slaughter, the feedlot manager notifies the packer of the number of head and the week of delivery and the packer schedules the delivery day. Typically, feedlot managers will notify the packer when the cattle have reached the desired weight and degree of finish, and the packer has discretion in scheduling delivery for slaughter.

The sum of packer fed cattle and cattle purchased through forward contracts and marketing agreements, reported as a percentage of total slaughter, is GIPSA's measure of captive supply.