

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Minimum Price Fixing in the Bituminous Coal Industry

Volume Author/Editor: Fisher, Waldo E. and Charles M. James

Volume Publisher: UMI

Volume ISBN: 0-87014-191-0

Volume URL: <http://www.nber.org/books/fish55-1>

Publication Date: 1955

Chapter Title: GEOGRAPHIC CLASSIFICATIONS UTILIZED IN ESTABLISHING
MINIMUM PRICES

Chapter Author: Waldo E. Fisher, Charles M. James

Chapter URL: <http://www.nber.org/chapters/c2884>

Chapter pages in book: (p. 65 - 82)

C H A P T E R V

GEOGRAPHIC CLASSIFICATIONS UTILIZED IN ESTABLISHING MINIMUM PRICES

THE pricing process specified in the Act involved two stages. The first stage was the preparation of uncoordinated price schedules which were to be established by the 22 district boards. Each district board, as instructed, proposed for its own coals a price schedule that showed value relationships within its district. It assigned values to each grade and size of coal regardless of where it was produced in the district or the market to which it was to be shipped. These values took into consideration inherent qualities, general market considerations, and types of consumers. The second stage involved the coordination of the prices with those of competing district coals in *common consuming markets*. Here interdistrict factors and conditions had to be weighed, and coordinated prices had to be established for designated markets.

In 1937, the year used in determining weighted average costs, there were 6,875 bituminous coal mines operating in 33 states and Alaska.¹ The large number of operating units, the decentralized nature of the industry, the wide variations in geological and mining conditions, the substantial differences in the markets served, as well as an extremely complicated system of freight rates, necessitated classifications of mines into such categories as producing districts, freight-origin districts, and minimum price areas. Without such groupings, the task of establishing minimum prices would have been almost impossible. This chapter will discuss the various classifications that were utilized by the price-fixing agencies in exercising their regulatory powers in the bituminous coal industry. Consideration will be given to (1) producing districts, (2) producing subdistricts, (3) freight-origin districts, (4) market areas and groups of market areas, and (5) minimum price areas.

A. *Producing Districts*

The Act designated 23 producing districts. One of these districts, No. 21, which embraced North and South Dakota, was later excluded from the provisions of the Act because it produced lignite, not bituminous coal. The number, name, and description of each district are given in Table 5. The factors that gave rise to these

¹ *Minerals Yearbook, 1938*, U.S. Bureau of Mines, p. 695.

TABLE 5
Description of Producing Districts Established by Bituminous Coal Act of 1937

Producing District	Description
1 Eastern Pennsylvania	<i>Pennsylvania counties:</i> Bedford, Blair, Bradford, Cambria, Cameron, Centre, Clarion, Clearfield, Clinton, Elk, Forest, Fulton, Huntingdon, Jefferson, Lycoming, McKean, Mifflin, Potter, Somerset, and Tioga. Also parts of Armstrong, Fayette, Indiana, and Westmoreland counties. <i>West Virginia counties:</i> Grant, Mineral, and Tucker. <i>Maryland:</i> all coal-producing counties.
2 Western Pennsylvania	<i>Pennsylvania counties:</i> Allegheny, Beaver, Butler, Greene, Lawrence, Mercer, Venango, and Washington. Also parts of Armstrong, Fayette, Indiana, and Westmoreland counties.
3 Northern West Virginia	<i>West Virginia counties:</i> Barbour, Braxton, Calhoun, Doddridge, Gilmer, Harrison, Jackson, Lewis, Marion, Monongalia, Pleasants, Preston, Randolph, Ritchie, Roane, Taylor, Tyler, Upshur, Webster, Wetzel, Wirt, and Wood. Also part of Nicholas County.
4 Ohio	<i>Ohio:</i> all coal-producing counties.
5 Michigan	<i>Michigan:</i> all coal-producing counties.
6 Panhandle (West Virginia)	<i>West Virginia counties:</i> Brooke, Hancock, Marshall, and Ohio.
7 Southern Numbered 1	<i>West Virginia counties:</i> Greenbrier, Mercer, Monroe, Pocahontas, and Summers. Also parts of Fayette, McDowell, Raleigh, and Wyoming counties. <i>Virginia counties:</i> Craig, Giles, Montgomery, Pulaski, and Wythe. Also parts of Buchanan and Tazewell counties.

GEOGRAPHIC CLASSIFICATIONS

TABLE 5 (continued)

Producing District	Description
8 Southern Numbered 2	<p><i>West Virginia counties:</i> Boone, Cabell, Clay, Kanawha, Lincoln, Logan, Mason, Mingo, Putnam, and Wayne. Also parts of Fayette, McDowell, Nicholas, Raleigh, and Wyoming counties.</p> <p><i>Virginia counties:</i> Dickinson, Lee, Russell, Scott, and Wise. Also parts of Buchanan and Tazewell counties.</p> <p><i>Kentucky counties:</i> Bell, Boyd, Breathitt, Carter, Clay, Elliot, Floyd, Greenup, Harlan, Jackson, Johnson, Knott, Knox, Laurel, Lawrence, Lee, Leslie, Letcher, McCreary, Magoffin, Martin, Morgan, Owsley, Perry, Pike, Rockcastle, Wayne, and Whitley.</p> <p><i>Tennessee counties:</i> Anderson, Campbell, Claiborne, Cumberland, Fentress, Morgan, Overton, Roane, and Scott.</p> <p><i>North Carolina counties:</i> Chatham, Lee, and Moore.</p>
9 West Kentucky	<p><i>Kentucky counties:</i> Butler, Christian, Crittenden, Daviess, Hancock, Henderson, Hopkins, Logan, McLean, Muhlenberg, Ohio, Simpson, Todd, Union, Warren, and Webster.</p>
10 Illinois	<p><i>Illinois:</i> all coal-producing counties.</p>
11 Indiana	<p><i>Indiana:</i> all coal-producing counties.</p>
12 Iowa	<p><i>Iowa:</i> all coal-producing counties.</p>
13 Southeastern	<p><i>Alabama:</i> all coal-producing counties.</p> <p><i>Georgia counties:</i> Dade and Walker.</p> <p><i>Tennessee counties:</i> Bledsoe, Grundy, Hamilton, Marion, McMinn, Rhea, Sequatchie, Van Buren, Warren, and White.</p>
14 Arkansas-Oklahoma	<p><i>Arkansas:</i> all counties.</p> <p><i>Oklahoma counties:</i> Haskell, LeFlore, Sequoyah.</p>

GEOGRAPHIC CLASSIFICATIONS

TABLE 5 (concluded)

Producing District	Description
15 Southwestern	<i>Missouri, Kansas, and Texas</i> : all coal-producing counties. <i>Oklahoma counties</i> : Coal, Craig, Latimer, Muskogee, Okmulgee, Pittsburgh, Rogers, Tulsa, and Wagoner.
16 Northern Colorado	<i>Colorado counties</i> : Adams, Arapahoe, Boulder, Douglas, Elbert, El Paso, Jackson, Jefferson, Larimer, and Weld.
17 Southern Colorado	<i>Colorado counties</i> : all counties not included in District 16. <i>New Mexico</i> : all coal-producing counties except those included in District 18.
18 New Mexico	<i>New Mexico counties</i> : Grant, Lincoln, McKinley, Rio Arriba, Sandoval, San Juan, San Miguel, Santa Fe, and Socorro. <i>Arizona counties</i> : Apache, Coconino, Graham, Navajo, and Pinal. <i>California</i> : all coal-producing counties.
19 Wyoming	<i>Wyoming</i> : all coal-producing counties. <i>Idaho counties</i> : Bannock, Bear Lake, Bingham, Bonneville, Caribou, Franklin, Fremont, Jefferson, Madison, Oneida, Power, and Teton.
20 Utah	<i>Utah</i> : all coal-producing counties.
21 North Dakota-South Dakota	<i>North Dakota and South Dakota</i> : all coal-producing counties. (Not under the Code, as the Commission decided this coal is not bituminous.)
22 Montana	<i>Montana</i> : all coal-producing counties.
23 Washington	<i>Washington and Oregon</i> : all coal-producing counties. <i>Alaska</i> : entire territory.

Source: 50 U.S. Stat. at L. (1937), 72.

GEOGRAPHIC CLASSIFICATIONS

particular districts were not set forth either in the Act or by the price-fixing agencies. It may be seen that these subdivisions of the bituminous coal industry have evolved over a considerable period of time. The framers of the Bituminous Coal Act of 1937 adopted in the main the producing districts designated in the Bituminous Coal Conservation Act of 1935, and the framers of that Act borrowed heavily from the classification of coal mines established under the NRA Bituminous Coal Code of 1933. In turn, the producing districts designated in the Coal Code were in many instances combinations of the more detailed fields recognized by the United States Coal Commission of 1922 which drew heavily on the fielding established by the Fuel Administration in control of distribution during World War I. This dependence upon earlier classifications of bituminous mines was to be expected inasmuch as (1) the original classification of the Fuel Administration followed the general pattern recognized by the industry and (2) drastic revisions would have precluded comparisons of statistical data compiled by the newly created agency with those of its predecessors.

Certain changes were required because of the growth—in some instances also because of the decline—of the industry. Experience with a given classification also brought to light limitations which necessitated the shifting of certain coal mines or counties from one district to another or the subdividing of areas to recognize important differences in production costs where different geological and mining conditions were found.

Reference to Table 5 will show that in seven of the 23 producing districts the boundaries are coextensive with those of a state. It is interesting to note that eight of the 30 districts established for organizing and administrative purposes by the United Mine Workers of America coincide with state lines and that four of these states—Illinois, Iowa, Michigan, and Montana—were also designated in the Bituminous Coal Act of 1937. Historically, the Mine Workers' system of districting antedates the classification developed by the Fuel Administration. State lines permit precise definition and simplify research because the statistical records of the industry are compiled for states and counties by both federal and state agencies. The use of state lines, however, in certain situations would overlook important differences in market connections, production costs, seam conditions, quality of coal, and similar factors. For that reason it sometimes became necessary to cut across state lines or to establish more than one district in a single state. For example, Districts 7

GEOGRAPHIC CLASSIFICATIONS

and 8 were created in an attempt, not wholly successful, to put all the low-volatile coal mines of the region into one district (No. 7) and the high-volatile coal mines into the other.² Unquestionably, market considerations played an important part in the decision to separate the mines in the Southeastern District (No. 13) from those in Southern Numbered 2 (No. 8). The latter district is advantageously located for shipments of coal to points north of Alabama and to the Carolinas, Georgia, and Florida, while District 13 sells most of its all-rail coal (about 80 per cent in 1937) in Alabama, Mississippi, and Louisiana.³ This statement should not be interpreted to mean that the two districts were noncompetitive but rather that each district, broadly speaking, had its own territory.

B. Subdistricts

The Act of 1937 made no provision for subdividing the districts it established. The district boards of 17 of the 23 producing districts designated in the Act, however, made use of subdistricts. The utilization of subdistricts was not an innovation. The boards merely followed a practice which had long been used not only by earlier federal agencies but by the United Mine Workers of America and the industry itself. These subdivisions were necessary because of important variations in the producing district growing out of the factors discussed above. The number of subdistricts, ranging from 2 to 45, depended, as would be expected, on the size of the district and the diversity of mining and marketing conditions.

The subdistrict was a geographical grouping of mines operating under similar natural conditions and serving the same markets. It served as a means of identifying the location of individual mines and was a useful device for bringing together in a geographical area mines which faced common mining and marketing problems. The grouping of mines into subdistricts greatly facilitated the work of establishing coordinated minimum prices.

² In 1937, 98 per cent of the coal produced in District 8 was classified as high-volatile and 96 per cent of District 7's tonnage as low-volatile coal. ("Total Distribution of 'Priced' and 'Unpriced' Coal in 1937 for Districts 7 and 8—High- and Low-Volatile," Bituminous Coal Division, Exhibits P-798, P-800, P-801, P-802.)

³ The percentage shipped in 1937 by District 13 to these three states is approximate, since it was necessary to include certain border market areas in this computation, to wit: market areas 113, 115, 132, 138, and 147. Computed from tonnages in the *Report, Proposed Findings of Fact, Conclusions and Recommendations of Trial Examiners*, as revised (General Docket No. 15), Bituminous Coal Division, April 1940, pp. 1026-448, *passim*.

GEOGRAPHIC CLASSIFICATIONS

C. Freight-Origin Districts

Generally speaking, bituminous coal is consumed in markets some distance from the mine. Some of it is shipped by truck and water, but the bulk is transported by rail. The cost of transportation is very high. Prior to the passage of the Act, freight rates often constituted a larger proportion of the delivered price of coal than did the producer's return. In 1936, "revenue freight originated" constituted 56 per cent of the destination value of bituminous coal. The corresponding rate for all other classes of commodities was only 7 per cent.⁴ This heavy freight burden on coal moving by rail has greatly affected both the movement of coal and the pricing practices of the industry. The rail-freight-rate structure for bituminous coal, under which "the rate per car-mile will vary depending upon the length of the haul, the territory under consideration, and other factors" has further complicated coal movements and pricing problems.⁵

Coals of approximately the same quality and of identical size, for the same use, of necessity have to sell at the same price at a given destination in an unregulated market. Freight rates from the various producing fields shipping to this destination, as we have seen, are often not the same. To equalize the prices at destination, under these conditions and under the terms of the Act, it became necessary to require freight absorption by the coal producers. In other words, the mine price at a given operation was established at a level that would equal the coordinated destination price minus the freight rate to the destination. To accomplish this result, use was made of freight-origin groups, that is, producing areas in

⁴ See Statement No. 3747 of the Interstate Commerce Commission, October 1937. The Commission's *Statistics of Railways in the United States: 1944*, on page 39, defines "revenue freight originated" as "shipments not identified as having had previous line-haul transportation by other rail carriers, including import traffic and traffic from outlying possessions of the United States received from water carriers at the port of entry, and finished products from transit points."

⁵ *Findings of Fact, Conclusions of Law, and Order of the Director of the Bituminous Coal Division Establishing Effective Minimum Prices and Marketing Rules and Regulations under the Bituminous Coal Act of 1937* (General Docket No. 15), Bituminous Coal Division, August 1940, p. 7. This source points out "that the car-mile charges from the Clearfield district of District 1 vary from 54.2 cents for the 254-mile haul to Frederick, Maryland, to 31.4 cents for the 694-mile haul to Springfield, Massachusetts" and that "the car-mile charges to Vermillion, Illinois, will vary depending upon whether the charge is for the 30-mile haul from the Brazil-Clinton district of District 11 (\$1.562) or for the 139-mile haul from the Boonville district of District 11 (54.3 cents)."

which all the mines had the same set of freight rates to the same group of destinations. Theoretically, freight rates are established to open up a given market to as many sellers as possible and to protect them against undue discrimination. Actually "even as to any single form of transportation such as railroads, the rates do not present a mathematical equivalence with distance, nor are they built upon any single theory. Rather, they are molded *ad hoc* to fit the complexities of complex industrial realities."⁶

The size of the country, the large number of coal mines in operation, and the existence of a vast network of competing railroads, often operating along parallel routes, would make schedules showing separate rates for every coal mine to every destination point impracticable.

Roger N. Quirk points out that "These so-called 'Origin Groups' are often, though not always, the same as the geological and geographical producing Sub-Districts or Districts. The boundaries are also frequently determined by the layout of the railroads, one main carrier line having one set of 'Origin Groups' and an adjacent line, another set. Freight rates to all the various destinations are quoted as from the different 'Origin Groups.' Each Group may therefore be regarded as having a 'fan' of freight rates attached to it and linking it with the various consuming points. Clearly the system results in the wiping out of the importance of the geographical position of the various mines within an 'Origin Group,' relative to a given destination. There is in the simpler cases only one freight rate from the Group irrespective of the position of the mines within it."⁷

Table 6 shows the number of subdistricts and freight-origin groups utilized by the various producing districts. Freight-origin groups were extensively utilized in the producing districts east of the Rocky Mountains. The number in these eastern districts ranged from 3 to 65. It should be pointed out that the same freight rate sometimes prevailed in more than one freight-origin district. In several producing districts, freight-origin groups with the same freight rate to one or more market areas were grouped together in the price schedule and called "freight-origin districts" or "price groups."

The relationships that prevailed between freight-origin groups were not the same throughout the industry. In certain areas known

⁶ *Loc.cit.*

⁷ "Regulation of the Bituminous Coal Industry in the United States," (preliminary edition, mimeographed, June 1939), General Appendix XVIII, p. 82.

GEOGRAPHIC CLASSIFICATIONS

as "affected" territory there were "standard uniform rail freight differentials," referred to as "freight-rate adjustments." As pointed out by the Director of the Bituminous Coal Division:

"In shipments to such territory, one group of mines will have a basic group freight rate, which bears a constant relationship to the other group freight rates, governing shipments from other groups

TABLE 6
Number of Subdistricts and Freight-Origin Groups in
Each Producing District, 1940

<i>Producing District</i>	<i>Subdistricts</i>	<i>Freight-Origin Groups</i>
1 Eastern Pennsylvania	45	47
2 Western Pennsylvania	9	39
3 Northern West Virginia		20
4 Ohio	8	40
5 Michigan		3
6 Panhandle (West Virginia)		4
7 Southern Numbered 1	6	15 ^a
8 Southern Numbered 2	9 ^b	46 ^c
9 West Kentucky		5
10 Illinois	6 ^d	65
11 Indiana	5	23
12 Iowa		^e
13 Southeastern	2	25
14 Arkansas-Oklahoma	11 ^f	12
15 Southwestern	13 ^f	39
16 Northern Colorado	12	
17 Southern Colorado ^g	21	
18 New Mexico ^h	8	
19 Wyoming ⁱ	9	
20 Utah	3	
22 Montana	12	
23 Washington ^j	11	

^a Of which 10 were limited to low-volatile mines and 5 were limited to high-volatile mines.

^b Of which 8 were limited to high-volatile mines and 1 was limited to low-volatile mines.

^c Of which 43 were limited to high-volatile mines and 3 were limited to low-volatile mines.

^d Ten special subdistricts, or "sections," were established for truck coals produced in this district.

^e Point-to-point freight rates prevail in this district.

^f These subdivisions are called "production groups."

^g Includes part of New Mexico.

^h Includes Arizona and California.

ⁱ Includes Idaho.

^j Includes Oregon and Alaska.

Source: Compiled from data in the *Federal Register*, August 24, 1940, pp. 2970-3128, *passim*; August 28, 1940, pp. 3202-3363, *passim*; and August 30, 1940, pp. 3406-3441, *passim*.

GEOGRAPHIC CLASSIFICATIONS

of mines. Thus, the Sandusky-Galion adjustment governs the movement of eastern coals to most destinations in a midwestern area (the 'affected' territory, including parts of Ohio and Indiana and the Southern Michigan Peninsula). On shipments to this affected territory there are three group freight rates: the base 'Inner Crescent' rate, governing in general the movements from that region where the eastern high-volatile coals are produced; the 'Outer Crescent' rate, 25 cents higher, and governing in general the movements of the regions where the eastern low- and medium-volatile coals are produced; and the Ohio No. 8 rate, 50 cents lower than the base rate, governing the movement of almost all of the Ohio coals. To every point in such affected territory, the freight rate, whatever it is for the Ohio coals, will be 50 cents higher for coals in the 'Inner Crescent,' and 25 cents still higher for coals in the 'Outer Crescent.'"⁸

On the other hand, there are many regions in which varying freight rate differentials prevailed, especially in "home markets" which were dominated by the producers operating in the market. In these markets "the coals move to the consuming plants on individual freight rates ('short-haul' freight rates) and freight rate differentials vary from point to point."⁹

The relationship between freight rates tended to be constant only for coal moving in one direction. Where coal, however, moved "to a market region from different fields and in more than one direction, the differentials between the freight rates of the two fields will vary according to whether the particular destination point is nearer to one field or another. Such territory is characterized in the record as 'cross-haul' territory."¹⁰

This brief summary of freight origin groups has disclosed (1) that the freight rate structure for bituminous coal is extremely complicated and (2) that some grouping of mines on the basis of comparable rates to particular destinations was an absolute necessity. Without freight origin groups, the establishment of coordinated minimum prices would have been an almost impossible task.

D. Market Areas and Groups of Market Areas

The Act required (Sec. 4-IIb) that the uncoordinated prices established for the various producing districts be coordinated "in common consuming market areas." Since the Act did not define or establish such areas, the task was undertaken by the Commission.

⁸ *Findings of Fact, . . . and Order of the Director . . .*, p. 8.

⁹ *Loc.cit.* ¹⁰ *Loc.cit.*

GEOGRAPHIC CLASSIFICATIONS

The Commission defined a common consuming market area as "a geographical region or subdivision in which the coal consumed therein is shipped by two or more producers from the same or different districts on a competitive basis."¹¹ The Trial Examiners found this concept to be "reasonable, proper and within the meaning of the Act."

Pursuant to the orders of the Commission, the representatives of certain district boards delineated more than a hundred common consuming market areas, many of which were patterned after those established under the National Recovery Administration Coal Code or by the Commission created under the Bituminous Coal Conservation Act of 1935. The representatives of other district boards submitted market areas which were not acceptable to their respective board members. When it became clear that the various boards could not agree upon common market areas and would not be able to establish coordinated price schedules, the Commission took over these functions. Working with the market areas submitted by the district boards as well as with data on the distribution of coal, the Commission on April 4, 1939 published a list of 177 common market areas. Later revisions increased the number of areas first to 186¹² and then to 193 (see Map 1). The areas established by the Commission in general followed closely those proposed by the representatives of the district boards.

Map 1 shows the approximate location of the 193 market areas, numbered from 1 to 254. Not all the numbers in the series, however, were used. The Commission divided the United States into "five series of market areas." The five groups of areas together with the geographical territory involved and the districts affected by coordination therein were:

Market Areas 1-14, embracing the northeastern portion of the United States and the eastern half of Canada, wherein the principal competition ensues among Districts 1-8 (except 5);

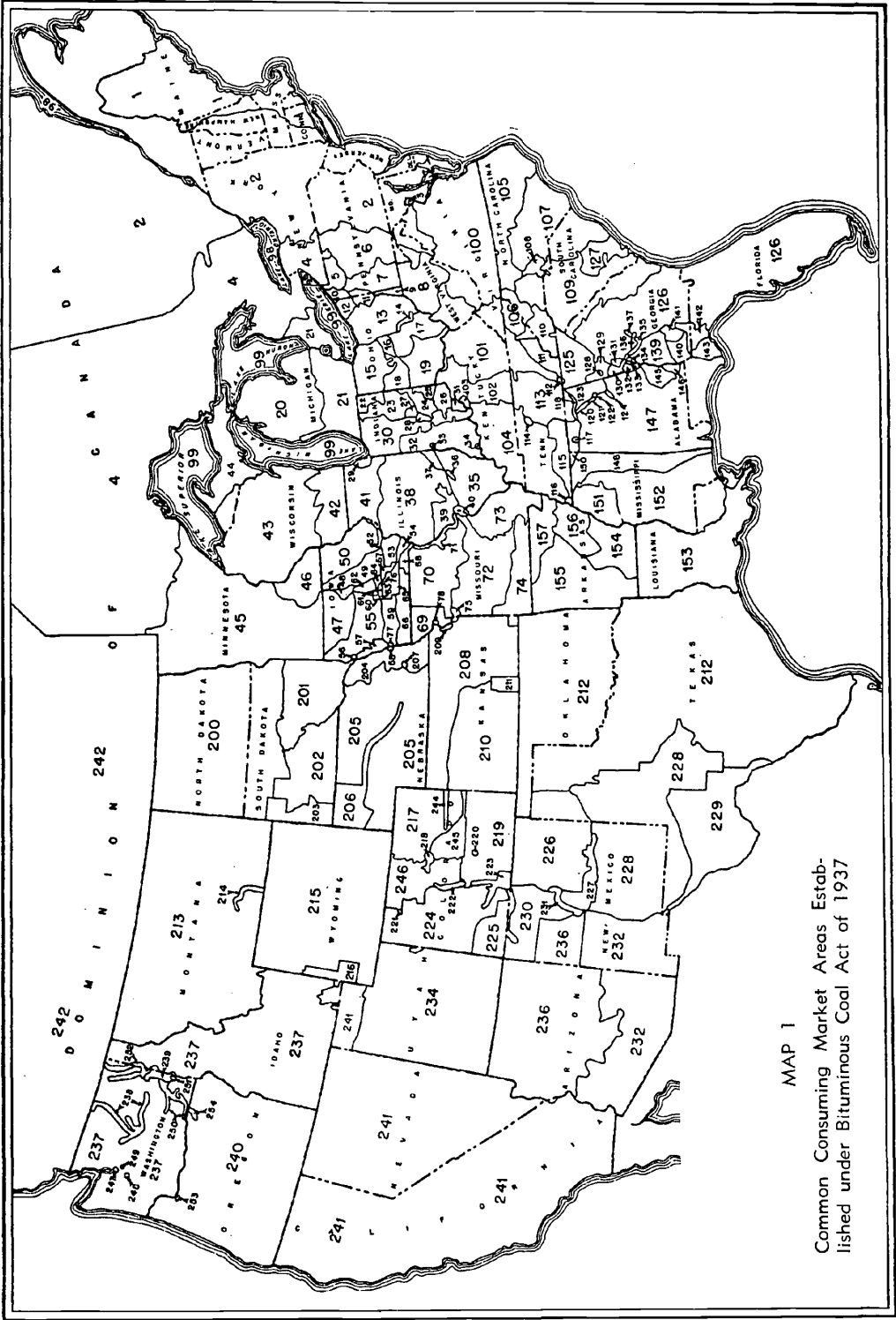
Market Areas 15-75, embracing the midwestern portion of the United States, wherein the principal competition ensues among Districts 1-12, 14, and 15;

Market Areas 98 and 99, generally comprising all receiving ports on the Great Lakes and the St. Lawrence River;

Market Areas 100-157, embracing the southeastern and southern portions of the United States, wherein the principal competition ensues among Districts 7, 8, 9, 13, 14, and 15; and

¹¹ *Report . . . of Trial Examiners*, p. 53.

¹² *Federal Register*, August 30, 1940, pp. 3445-67.



MAP 1
 Common Consuming Market Areas Established under Bituminous Coal Act of 1937

GEOGRAPHIC CLASSIFICATIONS

Market Areas 200-243 (later 200-254), embracing the western portions of the United States and Canada, wherein the principal competition ensues among the coals of Districts 7-23.¹³ Eighty of the market areas (1 to 78, 98, and 99) were located in the east-central states, 58 (100 to 157) in the southern states east of Texas, and 55 (200 to 254) in the western states.

The market areas varied greatly in size. Area 3 was confined to the District of Columbia while Area 242 comprised half of Canada. Iowa had 21 areas and Pennsylvania only six areas or parts of areas. Why was there so much variation in the size of these areas? Was such an intricate system of market areas necessary? Among the factors which determined the delineation of market areas were "the amount and source of the tonnage movement into each area; the freight rate structure prevailing with respect to such tonnage; competition among coals moving by rail . . . , by water . . . , or by truck . . . ; competition between coals and other fuels and energy; the most convenient statistical reflection of minimum prices" and "geographical division to accord with state boundary lines."¹⁴

The Commission did not utilize any one formula to determine the boundaries of market areas. On the contrary, it considered each market area as a separate entity and varied the weight accorded to each of the factors which determined its delineation, in accordance with its particular characteristic. The procedure used as described by the Trial Examiners was:

"First, to define general areas in which the marketing situation bearing upon coordination was substantially different from that in surrounding or adjacent territory, particularly with respect to the sources of competitive coal therein; secondly, to subdivide or delimit such general areas, wherever possible, from the standpoint of transportation costs, particularly freight rates from the points of origin of the competing coals to destinations, so that in coordinating the basic minimum prices therein, account could most effectively be taken of the transportation methods and charges and their effect upon a reasonable opportunity to compete on a fair basis; and third, to establish areas wherein market destinations were controlled by like competitive factors, so that each mine, insofar as possible, might have a constant coordinated minimum price, f.o.b. mine, for each kind, quality, and size of its coal, for shipment to all points within a given market area."¹⁵

While no single formula was used in delineating market areas,

¹³ *Report . . . of Trial Examiners*, pp. 55, 56.

¹⁴ *Ibid.*, p. 57. ¹⁵ *Ibid.*, p. 58.

GEOGRAPHIC CLASSIFICATIONS

it is nevertheless true that the controlling factor in determining the size and location of market areas was, in the majority of cases, the complicated structure of freight rates which governs the shipment of coal by rail to consuming markets. One can readily recognize the importance in the determination of market areas of the existence of a basic group freight rate which in many regions controls "shipments from a large group of mines to all destinations" in a given territory, "to which other group freight rates, similarly governing shipments from large groups of mines, bear a constant relationship. . . ."¹⁶ Important as they were, freight rates, however, did not control the demarcation of market area boundaries in all instances. For example, "Market Area 44 was separated from Market Area 43 because practically the entire distribution in the former consists of coal moved partly or wholly by water, whereas substantial tonnages are carried by rail to destinations in the latter."¹⁷ Similarly, competition between rail and truck coals played an important part in the creation of Market Areas 6, 40, 53, 59-64, and 67, while competition between natural gas and bituminous coal was an important consideration in the establishment of Market Areas 63 and 239.

The above presentation of common market areas is an oversimplification of a very complex organization of markets. The authors have attempted to give a rough concept of the pattern of market areas established by the Commission and the principal factors involved in their creation. It should be pointed out that generalizations may mislead and that a true picture of the market-area structure can be obtained only from a detailed consideration of the factors and conditions which led to their establishment. A more complete statement of this classification of markets is contained in the *Report, Proposed Findings of Fact, Conclusion and Recommendations of Trial Examiners, passim*, particularly pages 53 to 68.

E. Minimum Price Areas

The Coal Commission, later the Bituminous Coal Division, had not only to coordinate the minimum prices for the various grades and sizes of coal entering the many consuming markets but also to establish the general level of minimum prices at which coal could be sold. How was that level to be determined? Obviously the establishment of a level of prices could hardly be left to the industry or a government agency unless some criterion was laid down in the Act. Any other course might have led to the invalidation of the Act by the courts.

¹⁶ *Ibid.*, p. 59.

¹⁷ *Ibid.*, p. 66.

GEOGRAPHIC CLASSIFICATIONS

The framers of the Act apparently decided that the stabilization of the industry required that minimum prices must be related, not to the costs of the individual mines, but to the average costs of production of some group of mines. There were two obvious possibilities: (1) to base the prices of a given district on the average cost of the district or (2) to relate the prices in each district to the cost level of some larger area.

The first possibility would have been satisfactory if each district normally sold its coal at prices commensurate with its average cost. This happy relationship, however, did not always prevail. For example, District 1 reported a weighted average cost of \$2.39. If minimum prices had been fixed so as to yield a return of \$2.39, this District would have lost much of its business to neighboring districts because it was obliged to maintain its competitive position by selling at less than average cost.¹⁸

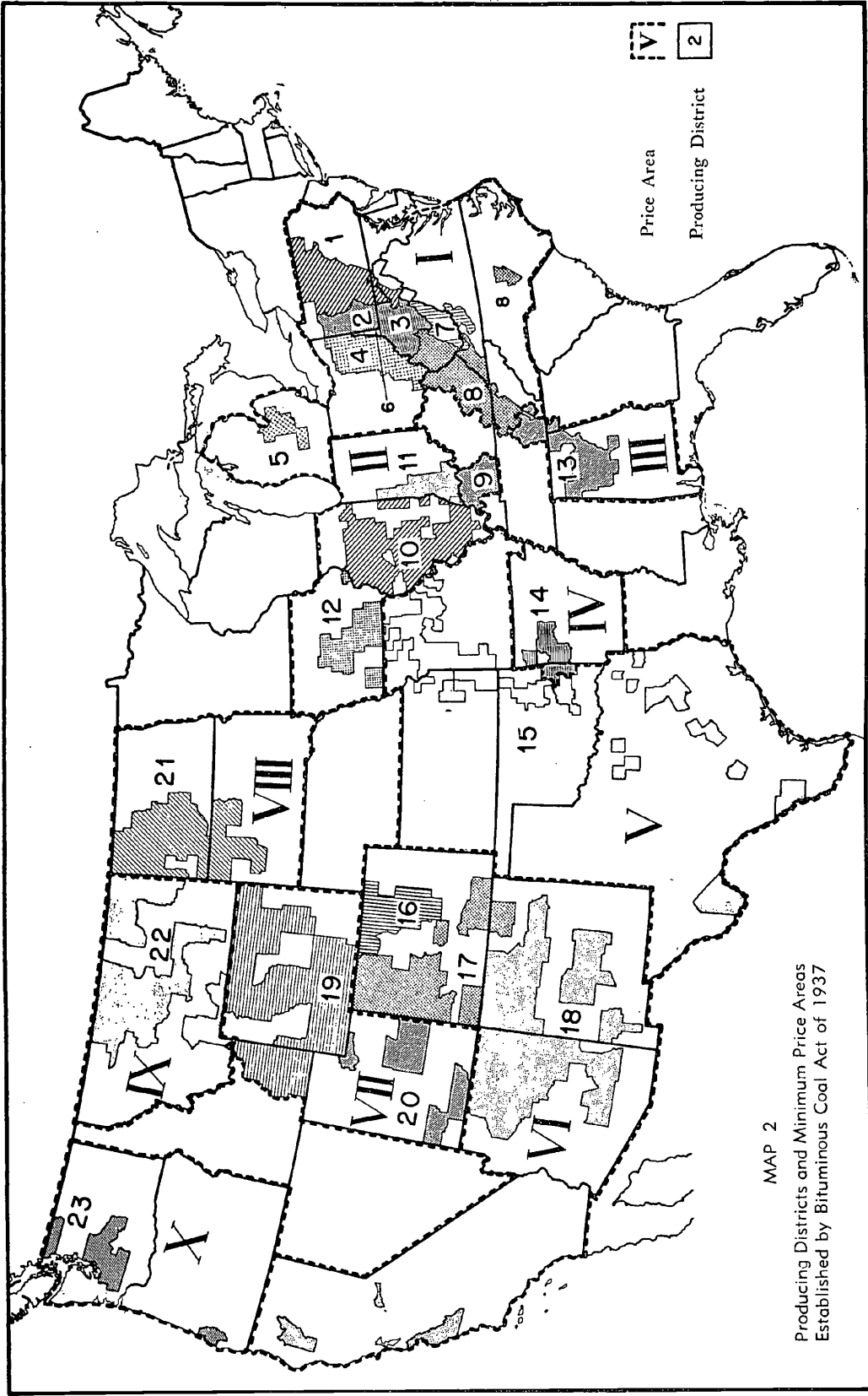
The second possibility, that of relating each district's minimum prices to the level of cost prevailing in some larger area, overcomes the difficulty arising under the first alternative. Under this arrangement, the price realizations of a given district could deviate both from its own average cost and that of the whole area and, because of offsetting variations in other districts, still permit the average realization of all districts to approximate the over-all average costs. In this manner the flexibility necessary to coordinate prices could be attained without sacrificing the use of a cost base.

It would have been possible to take all coal districts in the United States as the basic area. Under such an arrangement, however, the districts in the far west would have had their prices related to a national average cost determined to a very large degree by the cost of the tonnage produced by eastern districts with which they have little or no competition. Moreover, it would have been necessary to include in the area those districts in which the prices normally approximate the respective costs, which would not be the case if smaller combinations of districts were used.

The minimum price areas adopted by the framers of the Act are shown in Map 2 and Table 7. Of the nine areas, four (1, 2, 6, and 7) embraced more than one district each and five, because their average cost constituted a satisfactory price basis, consisted of a single producing district.

The minimum price areas adopted by the framers of the Act followed very closely those established under the Bituminous Coal Conservation Act of 1935 which in turn were partially based on

¹⁸ *Ibid.*, pp. R-59 to R-61.



V Price Area
2 Producing District

MAP 2
 Producing Districts and Minimum Price Areas
 Established by Bituminous Coal Act of 1937

GEOGRAPHIC CLASSIFICATIONS

TABLE 7

Producing Districts and Minimum Price Areas Established by
Bituminous Coal Act of 1937

<i>Producing District</i>	<i>Minimum Price Area Number</i>
1 Eastern Pennsylvania	
2 Western Pennsylvania	
3 Northern West Virginia	
4 Ohio	
5 Michigan	1
6 Panhandle (West Virginia)	
7 Southern Numbered 1	
8 Southern Numbered 2	
9 West Kentucky	
10 Illinois	
11 Indiana	2
12 Iowa	
13 Southeastern	3
14 Arkansas-Oklahoma	4
15 Southwestern	5
16 Northern Colorado	
17 Southern Colorado ^a	6
18 New Mexico ^b	
19 Wyoming ^c	
20 Utah	7
22 Montana	9
23 Washington ^d	10

^a Includes part of New Mexico.

^b Includes Arizona and California.

^c Includes Idaho.

^d Includes Oregon and Alaska.

Source: 50 U.S. Stat. at L. (1937), 72.

the minimum price areas formulated under the NRA code for convenience in administration. In fact, the only difference between the Act of 1935 and the Act of 1937 was that the 1937 Act placed in a separate area Illinois, Indiana, Iowa, and Western Kentucky, which had been included in minimum Price Area No. 1 in the 1935 Act. It is said that the separation was made because the producers in Districts 9 to 12 inclusive, knowing that their combined costs were lower than those of the Appalachian producers in Districts 1 to 8 inclusive, thought that such an arrangement would bring them the advantage of lower minimum prices than those they would obtain under a single minimum price area.¹⁹

¹⁹ Senator Dieterich of Illinois, favoring the creation of Minimum Price Area 2, was evidently thinking of the desirability of getting low minimum

GEOGRAPHIC CLASSIFICATIONS

Subsequent chapters will disclose that all of the five geographic classifications discussed above were utilized first by the Commission and later by the Bituminous Coal Division in establishing minimum prices for bituminous coal.

prices when he pointed out: a) That the coal produced in the four districts has a narrower market than the coals of the eastern districts, and b) That the coal produced in these four districts is of a quality inferior to the eastern coals. (*To Regulate Interstate Commerce in Bituminous Coal*, Hearings on S. 1, U.S. Senate subcommittee of the Committee on Interstate Commerce, 75th Cong., 1st sess., March 1, 2, 8, and 15, 1937, pp. 75-78.)

When the matter was being discussed on the floor of the Senate, Senator Neely of West Virginia cited the inferior quality of these coals as a reason for the creation of this area and pointed out that segregation would "have no appreciable effect upon the prices to consumers." (*Congressional Record*, 75th Cong., 1st sess., 81:3 [April 5, 1937], 3998.)