

Example B. DEF Company, manufacturing in a labor surplus area, bids on a contract at \$1,000. DEF Company will incur the following costs:

Direct labor.....	\$200
Overhead.....	200
Purchase of materials from UVW, which is located in a labor surplus area but which merely distributes the materials from stocks on hand (the materials having been manufactured by UVW's supplier).....	550

DEF Company does not qualify as a labor surplus area concern regardless of whether UVW's supplier manufactures in a labor surplus area.

Example C. GHI Company, manufacturing in a labor surplus area, bids on a contract at \$1,000. GHI Company will incur the following costs:

Direct labor.....	\$230
Overhead.....	275
Purchase of materials from RST, which manufactures the materials in a full employment area.....	425

GHI Company qualifies as a labor surplus area concern.

1-801.2 *Labor surplus area* means a geographical area which at the time of award is—

(i) classified by the Department of Labor as an "Area of Substantial Labor Surplus" or as an "Area of Substantial and Persistent Labor Surplus" (also called "Area of Substantial and Persistent Unemployment") (herein referred to as an area of persistent labor surplus) and listed as such by that Department in conjunction with its publication "Area Labor Market Trends"; or

(ii) not classified as in (i) above, but which is individually certified as an area of persistent or substantial labor surplus by the Department of Labor at the request of any prospective contractor.

1-801.3 *Small business concern* is defined in 1-701.

1-802 General Policy. Except as provided in 1-806 with respect to depressed industries, it is the policy of the Department of Defense to aid labor surplus areas by placing contracts with labor surplus area concerns, to the extent consistent with procurement objectives and where such contracts can be awarded at prices no higher than those obtainable from other concerns, and by encouraging prime contractors to place subcontracts with concerns which will perform substantially in labor surplus areas. In carrying out this policy, to accommodate the small business policies of Section I, Part 7, preference shall be given in the following order of priority to (i) persistent labor surplus area concerns which are also small business concerns, (ii) other persistent labor surplus area concerns, (iii) substantial labor surplus area concerns which are also small business concerns, (iv) other substantial labor surplus area concerns and (v) small business concerns which are not labor surplus area concerns. But in no case will price differentials be paid for the purpose of carrying out this policy.

1-803 Application of Policy.

(a) Within the policy set forth in 1-802, the following shall be applied to procurements which are estimated to exceed \$10,000 and may, if deemed practicable by the contracting officer, be applied to procurements between \$2,500 and \$10,000:

(i) negotiated procurements shall, where procurement objectives permit, be awarded to labor surplus area concerns; *provided*, that in no case shall price differentials be paid for the purpose of carrying out this policy;

(ii) where appropriate, procurements shall be made from labor surplus area concerns by partial set-aside procedures, in accordance with 1-804, and such set-asides shall be given preference over any small business set-aside (but no total set-aside shall be made for labor surplus area concerns);

(iii) each Department shall assure that information identifying labor surplus areas is disseminated promptly to procurement personnel;

(iv) Department of Labor certification (see 1-801.2(ii)) shall be considered conclusive with respect to the particular procurement concerned;

(v) even though less than a complete bidders' list is to be used pursuant to 2-205.4, all prospective contractors in labor surplus areas shall be solicited, except that only a pro rata number of prospective labor surplus area concerns may be solicited when the bidders' list is composed predominantly of labor surplus area concerns and the estimated award is not expected to be more than \$25,000;

(vi) subcontracting with concerns in labor surplus areas shall be encouraged in accordance with 1-805.