

**Build America, Buy America (BABA) Act Requirements: Additional Information on
Determining the Cost of Components for Manufactured Products**
A Resource for Manufacturers

The purpose of this document is to assist product manufacturers with understanding the Build America, Buy America (BABA) Act¹ requirements for calculating the cost of domestic components in a manufactured product, as described in 2 CFR 184.5². This document consists of a series of frequently asked questions (FAQs) based on Office of Management and Budget (OMB) guidance^{3,4}, the U.S. Environmental Protection Agency (EPA) implementation procedures⁵, and other resources. This document does not address domestic sourcing requirements associated with federal procurement or financial assistance from other federal agencies.⁶ For current information on BABA implementation at the EPA, visit the [EPA's BABA website](#).

Q1. What is the cost of components and what is the calculation used for?

A1. By law, for products categorized as manufactured products under BABA, there is a two-pronged requirement that must be met for the product to be considered “produced in the United States” and BABA-compliant. First, final manufacturing must occur in the United States. Second, the cost of the components of the product that are mined, produced, or manufactured in the United States must be greater than 55% of the total cost of all components. To complete this cost of components calculation, manufacturers must gather cost information for all components of the final manufactured product and determine whether each component was mined, produced, or manufactured within the United States or elsewhere.

Q2.1. How should manufacturers calculate the cost of components? Will the EPA provide an example?

A2.1. Through extensive outreach and engagement with manufacturing entities, the EPA understands that calculating the cost of components for manufactured products is product-specific and can be complex. To provide examples that are relevant to all manufacturing entities, what follows is an example of how cost-of-components determinations could be made in practice. (Note that the EPA cannot determine the cost of components of manufactured products on behalf of manufacturers.)

In the example below, a manufactured product includes a total of six components – A, B, C, D, E, and F. The manufacturer imports components A and B, purchases domestic components C, D, and E, and manufactures component F itself (at the same factory as the product’s final manufacturing). The total cost of all six of these components⁷ would make up the denominator of the component cost calculation. The costs associated with acquiring domestic components C, D, and E would be included

¹ [Build America, Buy America Act \(BABA\)](#). Pub. L. No. 117-58, §§ 70901-52.

² [2 CFR 184](#). Buy America Preferences for Infrastructure Projects.

³ [2 CFR 184](#). Guidance for Grants and Agreements.

⁴ [M-24-02](#). Implementation Guidance on Application of Buy America Preference in Federal Financial Assistance Programs for Infrastructure.

⁵ [Build America, Buy America \(BABA\) EPA Programs](#).

⁶ See [MadeinAmerica.gov](#) for information on BABA implementation at other agencies.

⁷ See [2 CFR 184.5](#) for allowable costs.

in the numerator, along with the costs associated with the manufacture of component F (not including profit).

$$\left(\frac{\text{cost of domestic components } (C + D + E + F)}{\text{total cost of components } (A + B + C + D + E + F)} \right) * 100$$

Q2.2. Which costs can the manufacturer include for the “self-manufactured” component of the manufactured product in the example above?

A2.2. The full cost to the final manufacturer for creation of component F (not including any profit markup) may be included in the numerator, including direct costs associated with the manufacture of the component, transportation costs included with the purchase of parts, and allocable overhead costs. Allocable overhead includes those costs directly attributable to the manufacture of the component, including the labor to manufacture the component.

All other costs at the final point of manufacturing of the manufactured product (such as final manufactured product assembly, inventorying, marketing, testing, quality assurance, and/or final transportation) are excluded from component cost calculations, including the labor used to “manufacture” the final manufactured product, unless directly associated with the manufacture of a component. The final manufacturing costs cannot be included in cost of components calculations because the final manufactured product is not a component.

Q3. How should manufacturers determine what constitutes manufacturing a component of a manufactured product (whether at the final point of manufacturing or as a purchased component)?

A3. The definition of manufactured product in 2 CFR 184.3 states that a manufactured product is “(i) Processed into a specific form and shape; or (ii) Combined with other articles, materials, or supplies to create a product with different properties than the individual articles, materials, or supplies.” These descriptions for BABA final manufactured products provide guideposts as to the types of activities that could constitute component “manufacturing.”

To evaluate whether a component of a manufactured product is “processed” in the United States, the EPA suggests the manufacturer demonstrate that major manufacturing activities are undertaken that result in the irreversible combination of articles, materials, or supplies, thus creating a component of unique character or function. For product/component-specific assistance, please reach out to BABA-OW@epa.gov.

Q4. How should manufacturers distinguish between subcomponents and components?

A4. The regulation at 2 CFR 184.3 defines components as “an article, material, or supply, whether manufactured or unmanufactured, incorporated directly into: a manufactured product; or, where applicable, an iron or steel product.” Because subcomponents are not defined in these regulations, manufacturers may calculate the cost of components as discussed in Q2 solely on components directly incorporated into the final manufactured product. If a manufacturer chooses, they may calculate the cost of components on a more granular level, but the calculations must be performed consistently for the entire manufactured product.