

MEMORANDUM D10-13-2

April 3, 1992

SUBJECT

ADMINISTRATIVE POLICY — TARIFF INTERPRETATION OF "FUNCTIONAL UNITS"

The purpose of this Memorandum is to outline and explain the interpretation of the Harmonized System (HS) principle for the classification of functional units as presented in Section XVI, Note 4 and Chapter 90, Note 3 of the Customs Tariff.

Legislation

The legislation with respect to functional units reads:

(a) Section XVI, Note 4 (Chapters 84 and 85):

Where a machine (including a combination of machines) consists of individual components (whether separate or interconnected by piping, by transmission devices, by electric cables or by other devices) intended to contribute together to a clearly defined function covered by one of the headings in Chapter 84 or Chapter 85, then the whole falls to be classified in the heading appropriate to that function.

(b) Chapter 90, Note 3:

The provisions of Note 4 to Section XVI apply also to this Chapter.

A brief explanation, with examples, of the scope of the above legal Notes is contained in the General Notes to Section XVI, namely (VII) Functional Units, at pages 1133-1134 of the Explanatory Notes and also General Note (IV) to Section XVIII, at pages 1457-1458.

GUIDELINES AND GENERAL INFORMATION

Introduction

1. One of the background studies undertaken during the HS development concerned the classification of large-scale production facilities, including complete plants, and processing or control systems, all comprising machines and apparatus of various headings of Section XVI or Chapter 90, but imported under turnkey contracts or similar one-price contractual arrangements. The HS Committee concluded that if, from a commercial or economic standpoint, a plant or system may be marketed, ordered and presented (delivered) as a complete installation utilizable solely for one specific purpose, it was

only logical to classify the whole in the single heading appropriate to that function, as a functional unit.

Statement of Policy

2. For the purpose of this policy, a functional unit is held to be:

An integral system, specially designed for a particular task, whose various components are designated to contribute together to a single, clearly defined purpose.

3. Auxiliary machines, appliances or apparatus which do not participate in, or contribute to, the clearly defined purpose or function of the whole are not considered to be components of a functional unit; rather, they are to be regarded as fulfilling supplemental or subsidiary roles and are thus classified in their own appropriate headings of Chapter 84, 85, or 90 or as the case may be. (See General Note 7 to Section XVI, example 4.)

4. Control panels, instrumentation or similar process control apparatus, such as automatic regulators, when presented (delivered) as components specified in a common contract for a functional unit are to be classified in the same heading as the unit. However, if presented separately, such panels, etc. are to be assigned to their own appropriate heading in accordance with the General Interpretative Rules.

5. Subsequent importations of components and parts thereof for a functional unit will be classified in the usual manner, that is in their own appropriate heading and thus do NOT necessarily follow the classification of the host unit.

Guidelines

6. Tariff classification as a functional unit will be affected when an importation satisfies the general description above and the following commercial and technical conditions apply:

(a) the various components make up a commercial unit which is advertised and sold at a single price;

(b) the various components were purchased as a unit on one contract or a single purchase order; and

(c) the sole function of the various components that comprise the integral unit cannot be accomplished if any single component is removed.

7. The Department recognized that present commercial and engineering practices with respect to sourcing, design, configuration (i.e., prefabricated modules), transportation, handling and on-site assembly of functional units does not affect its classification in one heading. Consequently, a functional unit presented in more than one consignment, regardless of whether or not such consignments originate in different countries, does not

preclude classification in accordance with the HS Notes cited under the Legislation section above.

8. Separately presented machines, appliances or apparatus, to be integrated or combined with other domestically sourced or supplied components to form a functional unit, are to be classified in their own appropriate heading. Neither Section XVI, Note 4, nor Chapter 90, Note 3 applies in such cases.

9. Policies and procedures pertaining to the release and accounting of functional units will be in accordance with the instructions contained in Memorandum D17-1-13, Interim Accounting (Provisional Documentation).

10. Examples of functional units classified in accordance with this policy are included in the Appendix hereto.

APPENDIX

FUNCTIONAL UNITS

Example 1:

Gas Turbine Compression System of Heading No. 84.14

Purpose — To boost the pressure of natural gas through a pipeline

- | A. | Principle Components
Number | HS Heading |
|----|---|------------|
| | — Gas turbine | 84.11 |
| | — Pipeline centrifugal compressor | 84.14 |
| | — Air intake system (for filtration) | 84.21 |
| | — Exhaust system
(for emission and noise control) | 84.21 |
| | — Various control panels
(i.e., fuel; lubricating oil; turbine
speed control) | 85.37 |
- B. Ancillary components:
- Gas turbine starter, i.e., electric motor or small low pressure turbine
 - Couplings
 - Step-up gearbox
 - Oil-cooling system

Example 2:

Bulk Storage System of Heading No. 84.77

Purpose — For the storage, conditioning and automatic delivery of a two-component (isocyanate/polyol resin) Urethane Foam

Principle components

- 23,000 litre isocyanate storage tank, c/w pumps, load cells, valves and piping;
- 30,000 litre polyol resin storage tank, c/w pumps, load cells, valves and piping;
- 1,500 litre-blended material storage tank, c/w pump and piping;
- 950 litre-agitated blend tank, c/w agitator, digital readout and printer, pumps and piping;
- 60 litre low-ratio additive tank, c/w pump, valves and piping;
- combination heating/cooling system for environmental control of each tank room, c/w controls; and
- dry air system to prevent moisture contamination of both base materials, c/w filters and regulators.

REFERENCES**ISSUING OFFICE —**

Tariff Programs

LEGISLATIVE REFERENCES —

Customs Tariff
Section XVI, Note 4
Chapter 90, Note 3

HEADQUARTERS FILE —

4500-6

SUPERSEDED MEMORANDA "D" —

N/A

OTHER REFERENCES —

Harmonized Commodity Description and Coding System (HS)