



9111-14

DEPARTMENT OF HOMELAND SECURITY

U.S. Customs and Border Protection

Notice of Issuance of Final Determination

Concerning Outdoor Unit

AGENCY: U.S. Customs and Border Protection, Department of Homeland Security.

ACTION: Notice of final determination.

SUMMARY: This document provides notice that U.S. Customs and Border Protection (“CBP”) has issued a final determination concerning the country of origin of Outdoor Units used in HVAC systems. Based upon the facts presented, CBP has concluded in the final determination that the U.S. is the country of origin of the Outdoor Units for purposes of U.S. Government procurement and country of origin marking.

DATE: The final determination was issued on November 7, 2014. A copy of the final determination is attached. Any party-at-interest, as defined in 19 CFR 177.22(d), may seek judicial review of this final determination on or before **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

FOR FURTHER INFORMATION CONTACT: Karen S. Greene, Valuation and Special Programs Branch: (202) 325-0041.

SUPPLEMENTARY INFORMATION: Notice is hereby given that on November 7, 2014, pursuant to subpart B of Part 177, Customs and Border Protection Regulations (19 CFR Part 177, subpart B), CBP issued a final determination concerning the country of origin of Outdoor Units, which may be offered to the U.S. Government under an undesignated

government procurement contract. This final determination, in HQ H248850, was issued at the request of Mitsubishi Electric US Inc., under procedures set forth at 19 CFR Part 177, subpart B, which implements Title III of the Trade Agreements Act of 1979, as amended (19 U.S.C. § 2511-18). In the final determination CBP concluded that, based upon the facts presented, the Outdoor Units were substantially transformed in the U.S. such that the U.S. is the country of origin of the Outdoor Units for purposes of U.S. Government procurement and country of origin marking.

Section 177.29, CBP Regulations (19 CFR 177.29), provides that a notice of final determination shall be published in the *Federal Register* within 60 days of the date the final determination is issued. Section 177.30, CBP Regulations (19 CFR 177.30), provides that any party-at-interest, as defined in 19 CFR 177.22(d), may seek judicial review of a final determination within 30 days of publication of such determination in the *Federal Register*.

DATED: November 7, 2014

Glen E. Vereb
Acting Executive Director
Regulations and Rulings
Office of International Trade

Attachment

HQ H248850

November 7, 2014

OT:RR:CTF:VS H248850 KSG

Stuart P. Seidel, Esq.
Baker & McKenzie LLP
815 Connecticut Avenue, N.W.
Washington, D.C. 20006-4078

RE: Government Procurement; Country of Origin of Outdoor Unit of CITY MULTI VRF System; substantial transformation

Dear Mr. Seidel:

This is in response to your letter dated December 13, 2013, and additional submission and information dated May 12 and October 31, 2014, requesting a final determination on behalf of Mitsubishi Electric US, Inc. (“Mitsubishi”), pursuant to subpart B of part 177 of the U.S. Customs and Border Protection (“CBP”) Regulations (19 CFR Part 177). Under these regulations, which implement Title III of the Trade Agreements Act of 1979 (“TAA”) as amended (19 U.S.C. 2511 et seq.), CBP issues country of origin advisory rulings and final determinations as to whether an article is or would be a product of a designated country or instrumentality for the purposes of granting waivers of certain “Buy American” restrictions in U.S. law or practice for products offered for sale to the U.S. Government.

The final determination concerns the country of origin of an Outdoor Unit for a CITY MULTI Variable Refrigerant Flow (“VRF”) multi-split heating, ventilation and air conditioning system (“HVAC System”). We note that as a U.S. importer, Mitsubishi is a party-at-interest within the meaning of 19 CFR 177.22(d)(1) and is entitled to request this final determination. A conference was held on this matter on April 8, 2014.

FACTS:

The HVAC System is comprised of Outdoor Units; Indoor Units; Branch Circuit (BC) Controllers; system controllers; and vertical air handlers. This final determination pertains to the Outdoor Units of the system. You listed various types of Outdoor Units, including the R2 Series, the Y Series, the H2i hyper-Heat Series, the WY Series, and the WR2 Series.

In the U.S., the base from Japan is unpacked. The base pan contains the compressor and accumulator. An appropriate flat heat exchanger (HEX) with aluminum fins and copper tubing and copper headers is selected for the particular Outdoor Unit and the HEX is moved with a mechanical lift to coil bending equipment. The HEX is placed in coil bending equipment to form the coil with two 90 degree bends. The HEX is then removed from the bender and positioned on the base pan. Some Outdoor Units utilize two coils and each must be formed before being placed on the unit base pan. The refrigerant tubing from the headers of the HEX is connected to the refrigerant tubing on the unit base connecting compressors, reversing valves, the accumulator and other components depending on the model type. The tubing is filled with nitrogen. The six to ten connections between the refrigerant tubing from the headers on the HEX are

brazed to the refrigerant tubing on the base unit. The unit is moved into a leak test chamber to test for leaks. Photographs which show the complex machinery and segments involved in the HEX bending and brazing processes were submitted.

Although there are various types of Outdoor Units, you state that in the U.S., the fan motor, fan, fan-motor mount, unit top panel, fan orifice, and fan guard cover are installed onto the unit base. The vacuum pump is also attached to the unit process tube. Next, an appropriate control box is placed into the programming fixture. The compressor, outdoor fan motor, reversing valve, pressure switches and sensors are wired to the appropriate location in the control box. Software is loaded onto the printed circuit board (PCB) which separates the PCB specification for Y Series and R2 Series Outdoor Units. It is stated that the software used for the Outdoor Unit was developed in the U.S.

Various tests are performed to ensure the Outdoor Unit functions. You have provided the costs of the various materials and labor used to produce the Outdoor Units in Japan and the U.S.

The mechanical contractor brings all the components of the system together to install them as laid out by the design engineer. The Outdoor Unit itself is ground or roof mounted and is connected to the BC Controller.

ISSUE:

What is the country of origin of the Outdoor Unit for U.S. Government procurement and country of origin marking.

LAW AND ANALYSIS:

Pursuant to subpart B of part 177, 19 CFR 177.21 *et seq.*, which implements Title III of the Trade Agreements Act of 1979, as amended (19 U.S.C. 2511 *et seq.*), CBP issues country of origin advisory rulings and final determinations as to whether an article is or would be a product of a designated country or instrumentality for the purposes of granting waivers of certain "Buy American" restrictions in U.S. law or practice for products offered for sale to the U.S. Government.

Under the rule of origin set forth under 19 U.S.C. 2518(4)(B):

An article is a product of a country or instrumentality only if (i) it is wholly the growth, product, or manufacture of that country or instrumentality, or (ii) in the case of an article which consists in whole or in part of materials from another country or instrumentality, it has been substantially transformed into a new and different article of commerce with a name, character, or use distinct from that of the article or articles from which it was so transformed.

See also 19 CFR 177.22(a).

In rendering advisory rulings and final determinations for purposes of U.S. government procurement, CBP applies the provisions of subpart B of Part 177 consistent with the Federal Acquisition Regulations. See 19 CFR 177.21. In this regard, CBP recognizes that the Federal Acquisition Regulations restrict the U.S. Government's purchase of products to U.S.-made or designated country end products for acquisitions subject to the TAA. See 48 CFR 25.403(c)(1). The Federal Acquisition Regulations define "U.S.-made end product" as:

...an article that is mined, produced, or manufactured in the United States or that is substantially transformed in the United States into a new and different article of commerce with name, character, or use distinct from that of the article or articles from which it was transformed.

48 CFR 25.003.

In order to determine whether a substantial transformation occurs when components of various origins are assembled into completed products, CBP considers the totality of the circumstances and makes such determinations on a case-by-case basis. The country of origin of the item's components, extent of the processing that occurs within a country, and whether such processing renders a product with a new name, character, and use are primary considerations in such cases. Additionally, factors such as the resources expended on product design and development, the extent and nature of post-assembly inspection and testing procedures, and the degree of skill required during the manufacturing process may be relevant when determining whether a substantial transformation has occurred. No one factor is determinative. The same standard is applicable to determinations of the country of origin for marking purposes under 19 U.S.C. 1304.

In determining whether the combining of parts or materials constitutes a substantial transformation, the determinative issue is the extent of operations performed and whether the parts lose their identity and become an integral part of the new article. *Belcrest Linens v. United States*, 573 F. Supp. 1149 (CIT 1983), *aff'd* 741 F. 2d 1368 (Fed. Cir. 1984). Assembly operations that are minimal or simple, as opposed to complex or meaningful, will generally not result in a substantial transformation. In *Carlson Furniture Industries v. United States*, 65 Cust. Ct 474 (1970), the U.S. Customs Court (predecessor to the U.S. Court of International Trade), held that the assembly of finished and unfinished chair parts into finished chairs in the U.S. was a substantial transformation. The court did acknowledge that more than the assembly of chairs took place; the legs were cut to length and in some cases, the seats were upholstered.

It is your position that the country of origin of the Outdoor Unit is the U.S. because the final assembly in the U.S. is complex.

In New York Ruling Letter (NYRL) 808608 dated April 13, 1995, Customs considered whether imported heat exchanger cores were required to be individually marked with their country of origin if they were later processed in the U.S. by a U.S. manufacturer. The heat exchanger core was a heat exchanger subassembly constructed of 25 steel tubes with attached aluminum fins. The tubes were evacuated and filled with a small amount of water which made them into "heat pipes" (a two-phase heat transfer system). The final subassembly had a protective aluminum housing that surrounded the fins. After importation into the U.S., two fans, a wire harness and a gasket were installed on the heat exchanger core. The completed unit was then marketed as a cabinet cooler. It was determined that the imported heat exchanger cores were substantially transformed as a result of the U.S. processing, and therefore the U.S. manufacturer was the ultimate purchaser under 19 CFR 134.35.

We find that the processing in the U.S. of the Outdoor Unit is similar to the processes considered in NYRL 808608. Similar to NYRL 808608, the HEX is bent and assembled with the fan motor and vacuum pump to complete the Outdoor Unit. Substantial processing is performed in the U.S., including bending of the HEX, brazing of the various connections, and installation of the control box which includes software developed in the U.S. to complete the Outdoor Unit. We find that these are complex operations requiring skilled workers. Based on the totality of the circumstances, we find that the Outdoor Units are substantially transformed as a result of the processing in the U.S. Accordingly, we find that the Outdoor Unit may be considered a product of the U.S. for purposes of U.S. Government procurement.

Section 304 of the Tariff Act of 1930, as amended (19 U.S.C. 1304), provides that unless excepted, every article of foreign origin imported into the U.S. shall be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or its container) will permit, in such a manner as to indicate to the ultimate purchaser in the U.S. the English name of the country of origin of the article. Congressional intent in enacting 19 U.S.C. 1304 was "that the ultimate purchaser should be able to know by an inspection of the marking on the imported goods the country of which the goods is the product. The evident purpose is to mark the goods so that at the time of purchase the ultimate purchaser may, by knowing where the goods were produced, be able to buy or refuse to buy them, if such marking should influence his will." *United States v. Friedlaender & Co.*, 27 C.C.P.A. 297 at 302; C.A.D. 104 (1940).

Part 134, Customs Regulations (19 CFR Part 134), implements the country of origin marking requirements and the exceptions of 19 U.S.C. 1304. Section 134.1(b), Customs Regulations (19 CFR 134.1(b)), defines "country of origin" as the country of manufacture, production or growth of any article of foreign origin entering the U.S. Further work or material added to an article in another country must effect a substantial transformation in order to render such other country the "country of origin" within the meaning of the marking laws and regulations. The case of *United States v. Gibson-Thomsen Co., Inc.*, 27 C.C.P.A. 267 (C.A.D. 98) (1940), provides that an article used in manufacture which results in an article having a name, character or use differing from

that of the constituent article will be considered substantially transformed. In such circumstances the U.S. manufacturer is the ultimate purchaser. The imported article is excepted from individual marking and only the outermost container is required to be marked. See 19 CFR 134.35.

As Mitsubishi Electric US, Inc. will be considered the ultimate purchaser of the Outdoor Units, the imported components used in the manufacture of the Outdoor Units may be excepted from country of origin marking, provided their outer containers in which they are imported are marked with their country of origin pursuant to 19 U.S.C. 1304(a)(3)(D).

HOLDING:

Based on the facts provided, the Outdoor Unit is considered a product of the U.S. for U.S. Government procurement purposes, and Mitsubishi Electric US, Inc. will be considered the ultimate purchaser of the Outdoor Unit.

Notice of this final determination will be given in the *Federal Register*, as required by 19 CFR 177.29. Any party-at-interest other than the party which requested this final determination may request, pursuant to 19 CFR 177.31, that CBP reexamine the matter a new and issue a new final determination. Pursuant to 19 CFR 177.30, any party-at-interest may, within 30 days after publication of the Federal Register notice referenced above, seek judicial review of this final determination before the Court of International Trade.

Sincerely,

Glen E. Vereb
Acting Executive Director,
Regulations and Rulings
Office of International Trade