

**Testimony**  
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**Kohler Co.**  
**House Energy and Commerce Committee**  
**Subcommittee on Commerce, Manufacturing and Trade**  
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I. Introduction

Mr. Chairman, Members of the Subcommittee. Thank you for the opportunity to present Kohler Co.'s perspective on the current housing situation in the United States and prospects for its future.

As others have noted, U.S. Census Bureau figures showed that U.S. builders broke ground on fewer homes in April than in the previous month, when they hit the rate of just over 1 million starts, the highest level since 2008. Analysts quickly blamed the decline on drops in apartment construction, which can be volatile. At the same time, housing sales rebounded smartly in April, and applications for building permits achieved the highest rate since June 2008. Although housing starts may exceed 1 million for 2013, no one in the industry would claim this is a robust market by historic standards. It is well below the 2 million starts of the 2005 boom levels, but appreciably above the 500,000 bottom experienced in 2009.

Generally speaking, Kohler Co. is bullish on prospects for continued recovery and growth in the housing market. However, there are also a number of economic challenges and federal policies confronting America that could derail our rosy outlook if they are not addressed by Congress.

Primary among these is accessibility to affordable housing and remodeling financing. That takes into account incentives such as the mortgage interest deduction and other critical

housing tax incentives. Accessibility includes protecting home values by preventing foreclosures and maintaining home ownership. It also means maintaining a balanced, consistent and appropriate level of government support for the housing finance system. If home buyers are denied access to affordable housing credit, a housing recovery will not occur, and economic growth will stall.

## II. Kohler Co.

Before I go into more detail, let me first tell you about Kohler Co. Our company's founder, John Michael Kohler, was an Austrian immigrant, a businessman and a visionary. The year was 1873, an unlikely time to start a new business in America. Despite the economic uncertainties of the day, John Michael Kohler purchased the Sheboygan Union Iron and Steel Foundry, never anticipating the growth of the company that eventually would bear his name.

The firm produced cast-iron and steel implements for farmers in the area, castings for the city's furniture factories and ornamental iron pieces that included hitching posts, cemetery crosses, urns and settees.

In 1883, Kohler took a product in his line, heated it to 1700°F and sprinkled it with enamel powder. Placing a picture of it in the center of his one-page catalogue, he called it “a horse trough/hog scalding . . . [that] when furnished with four legs will serve as a bathtub.” Kohler was in the plumbing business.

Like Kohler himself, many of the early employees were immigrants. Kohler Co. opened The American Club® in 1918 to house single male employees in comfortable surroundings at

an affordable cost across the street from the factory. Their dedication to excellence helped forge one of the oldest and largest privately held companies in the United States. Kohler ideas, craftsmanship and technology are at work today worldwide. From those humble beginnings, our company has grown far beyond what John Michael might ever have imagined, and his name has become synonymous with quality and originality. Our plumbing products, exquisite furniture, tile and stone, engines and generators, and hospitality and real estate lead the way to enhancing our customers' sense of gracious living.

The company is composed of four corporate groups: Kitchen and Bath, Power, Interiors, and Hospitality.

The Kohler Kitchen & Bath Group is a recognized global leader. It offers diverse product lines of fixtures, faucets, cabinetry and accessories from a powerful portfolio of brands that continually set new standards in design, craftsmanship and innovation – tied together by a singular level of quality over a broad range of price points. The Kitchen & Bath Group encompasses an extensive family of businesses around the world that manufacture plumbing products and cabinetry for the residential, commercial and industrial markets. It includes the well-known KOHLER®, STERLING®, ENGLEFIELD®, HYTEC®, JACOB DELAFON®, Karat and Novita plumbing brands; European showering brands Mira, Daryl and Rada; and cabinetry brands KOHLER and Sanijura for the bath. From the first 7 gallon Wellworth toilet introduced in 1936, to the 1.28 gallon Wellworth offered today, Kohler has been at the leading edge of innovation in water conservation.

The Kohler Global Power Group has been providing dependable power solutions in the United States since the early 1920s. From the introduction in 1920 of the Kohler Automatic Power & Light, the world's first engine-powered electric generator, and the first Kohler engine introduced in 1948, the Kohler Power Group has grown into a worldwide organization encompassing generators, transfer switches, switchgear and controllers; as well as gas, gasoline and diesel engines. It comprises Kohler Power Systems (U.S. and Asia), SDMO Industries (France) and Maquigeral (Brazil) that manufacture generators for residential, industrial, portable, mobile and marine applications, with a power output range of 4 to 3,250 kilowatts. Uninterruptible Power Supplies Ltd. (U.K.) is a leading provider of power protection product and services solutions. Kohler Engines (U.S. and Asia) and Lombardini (Italy) manufacture a wide range of gaseous, gasoline and diesel engines, from 4 to 74.3 horsepower, which are supplied to equipment manufacturers worldwide in the lawn and garden, commercial and industrial, agricultural and construction markets.

The Kohler Interiors Group consists of two home furnishing sectors – Decorative Products and Furniture – that offer exquisite collections by some of the world's most recognized designers, as well as a breadth of products by its talented in-house design teams. The group provides unprecedented indoor and outdoor options for residential and commercial projects and includes furniture brands Baker®, McGUIRE® and MARK DAVID®; and decorative products brands ANN SACKS® tile and stone, KALLISTA® plumbing, and Robern® mirrored cabinetry and vanities.

The Kohler Hospitality & Real Estate Group includes The American Club, boasting the first and only Forbes Five-Star hotel property in Wisconsin, and world-renowned championship golf courses Whistling Straits and Blackwolf Run. Kohler Co. also owns and operates the AA Five Red Star Old Course Hotel, Golf Resort & Spa in the birthplace of golf, St Andrews, Scotland. The Hotel stands astride the 17th hole of the Old Course and the North Sea. Just behind the 18th hole, Kohler Co. is renovating what will be known as Hamilton Grand, with 26 apartments.

Throughout its history, Kohler has expanded into new markets from its manufacturing base in Wisconsin. The company has sought to locate manufacturing operations in the markets it serves rather than shipping products manufactured in one market around the world to another. Today Kohler is comprised of more than 30,000 associates, operating more than 50 manufacturing plants around the world, serving customers on every continent. And when we say every continent we mean it. In 1934, Admiral Richard Bird took Kohler generators on his second expedition to the South Pole, only to discover that the Kohler generators left behind from his first expedition in 1929 still were operational.

While this may sound like a commercial for Kohler Co., it is really a public service announcement on behalf of America free enterprise, ingenuity, innovation, environmental sustainability, and commitment to the highest standards!

At Kohler Co. the corporation and each associate have the mission of contributing to a higher level of gracious living for those who are touched by our products and services. Gracious living is marked by qualities of charm, good taste and generosity of spirit. It is further

characterized by self-fulfillment and the enhancement of nature. We reflect this mission in our work, in our team approach to meeting objectives and in each of the products and services we provide our customers.

We endeavor to conduct ourselves in accordance with the following guiding principles:

- Live on the leading edge of design and technology in product and process.
- Maintain a single level of quality across all product categories. Prices will vary based on differences in materials, functions and design detail, but should never vary in quality.
- Provide consistent quick delivery to the end user.
- Employ service-minded people who enjoy solving problems, are passionate about their work and business, take ownership and are accountable.

If practiced as a whole, these principles establish our reputation. They help us generate market share growth by creating a competitive edge that cannot be duplicated. Foremost, these principles will enable attainment of our Mission. They will leave a lasting memory that will make people smile.

### III. Important Issues Facing Congress

Issues facing the 113<sup>th</sup> Congress are serious and need your steadfast attention if we are to sustain the housing recovery. There are five priority issues that concern Kohler Co.

1. The first issue is: Access to affordable financing by home owners and remodelers.

Kohler Co. has followed closely federal efforts over the last year to affect positively the housing market, and we have been disturbed the lack of progress and agreement so far on a course of action.

A year ago, Federal Reserve Chairman Ben Bernanke sent a White Paper on Housing to Congress. He stated, “Restoring the health of the housing market is a necessary part of a broader strategy for economic recovery.” He was criticized for interfering in an area that was the purview of Congress.

At about the same time, the President unveiled a plan to help struggling homeowners refinance their mortgages, to be funded by a tax on large financial institutions. The paper released last year by the Treasury Department spelled out three broad policy options for reforming government-sponsored entities and the Federal Housing Administration. However, the Administration refrained from pushing it.

A recurrent theme throughout Bernanke’s paper was that government-sponsored entities (GSEs) such as Fannie Mae and Freddie Mac should continue to play a prominent role in housing markets and that a policy of no action, or simply allowing foreclosures to take place until the market bottomed out, would only prolong “downward pressure on the wealth of current homeowners and the resultant drag on the economy at large.” While calling for GSEs to continue playing a role, Bernanke’s report was critical of institutions such as Fannie and Freddie for focusing too much on their own profits and not enough on what they do best for the national economy. V So far, no decisive action has been taken on GSEs.

In early May, the President nominated Rep. Mel Watt (D-NC), a veteran member of the House Financial Services Committee, to be director of the Federal Housing Finance Agency which oversees Fannie and Freddie and other GSEs. As this is a critical position that should be filled, we hope the Senate will consider his nomination thoughtfully and without undue delay.

Media reports said that the Treasury Department has been ready to release a more detailed plan, but has withheld it because of political consequences.

Simply put, we need policies that encourage private institutions to participate in the home finance market; clarity in rules and regulations surrounding lending standards; consistent regulation and certification of appraisers; and a greater sensitivity in Washington toward burdensome processes that add time and cost without meaningful benefit to the mortgage finance market.

## 2. Our second issue is: National water-use standards based on science.

Kohler Co. has an historic record of success in product innovation, technology advancements, water conservancy, environmental efficiency, and long-term sustainability. In support of this commitment, we need firm support from federal, state and local policy makers for national water-use standards that allow Kohler and other manufacturers to invent, produce and market plumbing fixtures and fitting, without local, state or regional variances that cause



havoc with manufacturing and distribution. Such harmonized regulations need to apply to all market participants, large and small, domestic and foreign.

Patchwork regulations applied selectively create unreasonable burdens on enterprises and virtually guarantee a race to the lowest usage levels, regardless of good science and maximum efficiency.

Before World War I, an environmentally sensitive Kohler Village was designed and built, envisioned by Walter J. Kohler, son of the founder and CEO of the company for 35 years. He considered its development as “the serious business of building a fine American city, with opportunity for home ownership in agreeable surroundings, all tending toward a national home life.”

After extensive studies of European planned garden cities, Kohler retained the Olmsted Brothers of Boston, famed for designing New York’s Central Park, to design the overall village plan. The plan, which followed the typography of the land as carved out by the meandering Sheboygan River, was amazing in its foresight. Among other avant-garde environmental concepts, it was surrounded by a 900-acre green belt that assured, as one executive said, “We will never end at someone else’s backyard.”

The factory was built on the east side of the village to assure that prevailing westerly winds would settle out particulate from the foundries on open space rather than on homes and people in Sheboygan. It was the earliest example of environmental protection.

In subsequent generations of Kohler family leadership, this environmental commitment has been continued. It is in the Kohler DNA!

When the current Chairman Herbert V. Kohler, Jr. took over the company reins in 1972, he provided the creativity and impetus for embarking on a plethora of environmentally sensitive plumbing products that defied the imagination. He also turned a garden village into a world-renowned hospitality and golf destination with his creation of Whistling Straits along Lake Michigan and Blackwolf Run in a village valley, both sites of professional golf tournaments in recent years.

The American Club®, built originally to house immigrant craftsmen recruited from Austria, Germany and other European countries in 1918, was reimagined as an award-winning hotel and resort, located across the street from the corporate campus. It has received the Forbes Five-Star Resort Hotel recognition and is the Midwest's only AAA Five Diamond Resort Hotel providing unique, luxurious décor that creates a singular quality experience.

David Kohler, Herb's son and now president and chief operating officer of Kohler Co., likewise has continued the commitment with a serious leadership position in furthering the corporation's commitment to water conservancy and sustainable development.

In 2008, David reset the company's strategy to more earnestly drive sustainability. In announcing the approach, he said, "Our sustainability strategy, properly conceived and executed, should not be about compromise or massive tradeoffs. It should be a win for the consumer, a win for the associate, a win for the environment, and a win for the company. Specifically, it must enhance growth and differentiation, while reducing cost."

Wholehearted support of the EPA WaterSense program is a case in point. WaterSense is a voluntary public-private partnership program to protect the future of the nation's water supply

by promoting water efficiency and enhancing the market for water-efficient products, programs and practices. Plumbing fixtures and faucets that qualify for the WaterSense label assure consumers of actual water savings and strict performance standards. EPA reported that WaterSense labeled products have helped Americans save 287 billion gallons of water and \$4.7 billion in water and energy bills since the program's inception.

Kohler Co. was recognized by the EPA WaterSense program with the 2012 WaterSense Manufacturer Partner of the Year award for the company's efforts surrounding the education and awareness of water issues across the globe. Kohler was the first company to earn the Partner of the Year award in 2008 and won it again in 2009. The company was recognized further with WaterSense Excellence Awards in 2010 and 2011.

Kohler's 2012 efforts to promote water conservation included product placement in several high-profile projects and locations including ABC's Extreme Makeover: Home Edition; Yellowstone National Park; The House in Innoventions at Epcot, Disney World, Orlando, FL; PUNCHouse, Lisa Ling's personal home focused on sustainable living; and the World Trade Center museum restrooms in New York City.

Kohler Co. offers products that are designed to conserve natural resources while remaining true to a singular quality level.

Whether specifying plumbing products that help buildings earn LEED® water-efficiency points, reducing facility operating costs or accommodating the preferences of homeowners, water-saving Kohler fixtures and faucets address the challenging demands of customers and preserve one of our most precious natural resources.

3. Our third issue is: Fair and equitable treatment for trade channels, including online.

Preferences for Internet sales channels threaten traditional bricks-and-mortar stores and showrooms in our industry. These stores and showrooms provide local support for the plumbing trade, deliver service to consumers, and process product returns and exchanges. They are critical to providing consistent quality products and services, properly delivered and installed for consumers.

We support the Marketplace Fairness Act that levels the playing field between those who sell to customers in the traditional way and those who do so online. As law currently provides, sales tax in states that have imposed it should be paid by customers whether they purchase a product in store or online. MFA simply removes the current practice of sales tax avoidance by most online consumers.

4. Our fourth issue is: The Supply of a skilled and unskilled workforce.

Agreement appears to have been reached in the Senate to pass an immigration reform bill soon that, among other things, addresses the issue of expanding work visas for technical experts from abroad. Kohler Co. supports the intent of the bill, in this respect, and believes that comprehensive immigration reform is overdue.

The homebuilding industry relies on the contributions of a substantial immigrant workforce, which is critical in sustaining the national economy and meeting the needs of the nation's housing industry.

It is estimated that some 20 percent of the building industry's workforce is foreign-born. We believe that a workable system is necessary, but we believe citizenship should be handled as a separate issue. Congress should focus on the direct employer-employee relationship, and responsibility for the identity and work authorization status of employees may properly rest with their direct employer.

By easing the procurement of H1-B visas and liberalizing related visa issues, immigration reform will make it possible for American business and industry to access the skilled workers they need. This is very important to most U.S. industry.

The New York Times on May 25<sup>th</sup> reported, "While the populations of countries like the United States are aging, the number of innovative young people worldwide has never been higher. Countries like China, India, Brazil and Russia, despite recent slowdowns in growth, still are making progress in improving their educational systems and scientific networks. That increases their ability to supply technological innovations – scientists and entrepreneurs – to the United States. These gains can be reaped in coming decades."

As we face growing shortages in plumbers and other skilled trades, government should be doing what it can to support vocational and trade schools as well as supporting qualified apprenticeship programs. Furthermore, we should be offering work visas to all who graduate from U.S. colleges and universities, particularly those with science and engineering degrees.

Kohler Co. has a unique view of immigration. The company was founded by immigrants from Austria. Many of the early workers emigrated from Europe to work in Kohler, Wisconsin, in the early 20<sup>th</sup> century. Kohler provided well for the immigrants in housing at The American Club®, health care, recreation, and education. The company encouraged them to learn English, become U.S. citizens, and adopt the American way of life. Many of the decedents of these early employees work for Kohler today and through the generations have made a lasting contribution toward the company's success.

The Company's desire to attract talented immigrants to contribute to American prosperity continues to this day. Herbert V. Kohler, Jr., serves on New York Mayor Michael Bloomberg's Partnership for a New American Economy, a high-level committee of top U.S. corporate executives along with mayors of major U.S. cities, founded to support comprehensive immigration reform.

5. And finally, our fifth issue is: The elimination of onerous government rules and regulations that undermine progress for manufacturing enterprises, their employees and communities.

Kohler Co., like most components of the home building and remodeling industry, faces onerous government rules and regulations that drive up manufacturing costs, often force layoffs and sometimes plant closures, as well as encourage outsourcing.

Kohler Co. has formed a Public Policy Group comprising a cross-section of high-level company executives with a variety of corporate responsibilities impacted by government policies and regulations. This group keeps a close eye on legislative and well as regulatory actions that may result in such onerous government actions.

Among our 2013 priority issues are a series issues related to chemical use. Often when it comes to EPA, the Department of Energy, and other departments and agencies, we do not have sufficient lead-time to prepare for oncoming regulations (Lead and Copper Rule, implementation of the Reduction of Lead in Drinking Water Act, taking effect in 2014). In other cases, good science is missing, and decisions are based on faulty or incomplete studies (hexavalent chromium). In still other instances, contradictions occur between and among federal agencies that have some part of the responsibility of regulation (e.g., styrene: EPA, HHS, and NAS).

One of the more potentially damaging to the company and its employees and communities relates to what's known as "Clay MACT." That stands for Clay Maximum Available Control Technology. Without getting into the complex details, Kohler is in a unique position with its production facilities that can be corrected with the creation of a sub-category under the standard that would mitigate the impact on Kohler while meeting the intent and purpose of the rule.

We currently are working closely with EPA to develop sensible and appropriate standards in this case. Kohler wishes to stress that the manufacture of ceramic tile is substantially

different from the manufacture of sanitary ware, and therefore we urge EPA to use its discretion to establish separate ceramic tile and sanitary ware subcategories.

This will ensure that the resulting MACT floors will have the opportunity to appropriately reflect the differences in these manufacturing processes.

We also are encouraging Congress to formally authorize funding for the very successful, cost-effective EPA WaterSense program, which currently is funded from the EPA Administrator's budget, making it difficult for all concerned to plan ahead.

Kohler Co. supports efforts to prevent expensive, pointless regulations from impeding home building and remodeling, which add unnecessary costs to consumers. (Storm water permit requirements cannot be interpreted so broadly as to regulate puddles under the Clean Water Act!)

#### IV. Conclusion

In conclusion, I would submit that housing has pulled the U.S. economy out of every recession since the Great Depression. It remains critically important that governments at all levels help create and support an environment conducive to home building. Housing is, by its very nature, a driving force of local economic activity, whether it's new homes, remodeling projects or existing home care and maintenance. Much of the supply chain is local, with the result that all housing activity multiplies its economic benefit throughout the domestic economy.



Kohler Co. is one part of the supply chain to the housing industry, but our company's success illustrates what industrious immigrants can accomplish through free enterprise and a healthy housing sector.

Thank you.