

# A Chaotic Gray Market Determines Who Gets Coronavirus Gear—and Who Doesn't

A look inside the channel providing equipment front-line workers can't get enough of—masks, gloves, gowns—reveals a messy network of legitimate vendors and traders, fly-by-night brokers and opportunists

By [Brody Mullins](#), [Susan Pulliam](#) and [Brett Forrest](#)

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A few weeks ago, Mike Gula was negotiating millions of dollars of deals in the gray market for protective gear, in line for a huge profit. Mr. Gula, 39, had rocketed up to become among the largest brokers peddling masks and other medical equipment to states in need as they fight the new coronavirus.

Now, his deals with several states including California and Maryland have come undone. He is facing federal and state investigations. His firm, Blue Flame Medical LLC in Washington, D.C., is scrambling to secure supplies from China to fulfill other deals.

New entrants have flocked to the market of selling masks, gloves, gowns, ventilators and virus tests to fulfill the need of U.S. front-line workers—and it is a chaotic scene.

A look inside this vital but anarchic market reveals legitimate vendors and traders, fly-by-night brokers and opportunists who look to make a fast buck while operating in an arena with little transparency and fast-changing rules. Some brokers estimate the market has swelled to \$50 billion.

What began as a bonanza has grown perilous. China has tightened customs regulations, resulting in delays and logjams on orders states hoped would arrive soon. Some orders for protective gear recently have been postponed until late summer or later, state officials said.

The demand for protective gear will increase as states reopen their economies and businesses. By week's end, 43 states will be doing that at least partially. With little gear coming from the U.S. government, states, hospitals, law enforcement and companies will heighten their hunt to protect employees. The gray market is where many will continue to turn for the goods—mostly made in China—forcing brokers, states and others to reinvent a supply chain on the fly.

Ethan Bearman, a lawyer for Blue Flame, said the company has had difficulties securing protective gear from China in a timely fashion but said it had done nothing

wrong and would cooperate with any investigations of its medical-supply deals.

Prices for masks, gloves and gowns change constantly. The cost of shipping masks on charter planes has more than doubled in a month. Terms for purchasing, shipping and billing are a hodgepodge of arrangements. Brokers and buyers say supplies originating in Chinese warehouses are available one day, gone the next.

Adding to the confusion, the Food and Drug Administration on Thursday withdrew approval for more than 60 Chinese manufacturers to export masks made to the Chinese KN95 standard to the U.S., after finding what officials said were low-quality products from some of the previously approved makers. Masks had already been imported into the U.S. that were made by some of the companies that had their approvals yanked.

### **‘Pins and needles’**

Gown prices have surged amid a shortage, said broker Peter Collipp. Last month, he got an order from Henrico County, Va., to buy 37,000 isolation gowns at a quoted price of \$3.20 each, he said. His supplier said the order would be completed in two weeks but later said they were no longer available at that price.

Mr. Collipp scrambled to find another supplier, even as the county asked for 30,000 more gowns. The price had jumped 38% to \$4.40 each, he said. He found a Chinese manufacturer and worked out a plan: He would rush 6,000 gowns by plane and put 24,000 on a boat to lower shipping costs. The county received the first of the \$219,000 order for gowns this week.

“We sit on pins and needles” after placing orders, said Jackson Baynard, Henrico County’s emergency manager.

A roughly \$1 million deal in April for gloves with the Canadian government involved a procurer in Calgary, a trader in Florida and a manufacturer in Shandong, China—each coordinating through a marketplace run by a man in Boulder, Colo., on the Telegram messaging app—according to a broker who partners with the Florida trader.

Ordinarily, procuring medical goods is a lengthy process for states. Officials typically perform due diligence on sellers and often have 30 days to pay an invoice, providing a measure of protection if anything goes awry.

Now, there is no time for conventional checks. Buyers say they often deal with brokers who have little track record and frequently ask for half the payment upfront. Local officials in the U.S. are left with fingers crossed, hoping needed supplies arrive.

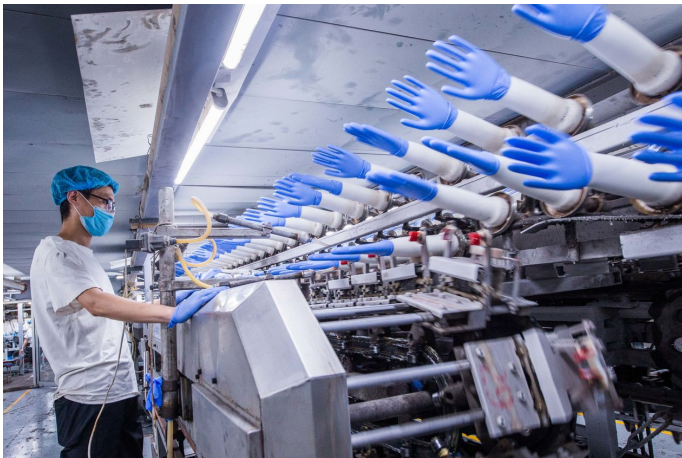
Brokers like Jason Frankovich, in Staten Island, N.Y., who had dealt in medical supplies before the pandemic, face the same dilemmas. Despite knowing where to procure masks, gloves and other gear for hospitals, Mr. Frankovich said, “We don’t have the ability to do a deep dive in due diligence.”

“If I spend money on a deal, I usually get on a plane and go shake hands with somebody,” he said. “We can’t do this now.”



Peter Collipp's first shipment of KN95 masks.

PHOTO: PETER COLLIPP



Production of protective equipment in China in February.

PHOTO: WANG JILIN/SIPA/ZUMA PRESS

More market players are requesting short-term financing to protect themselves and secure deals. In the past week, Atlys Global Finance, a New Jersey firm that provides disaster-relief funding for contractors, received funding requests totaling \$1 billion from states, governments and brokers looking to finance these deals, said co-founder

Frank Robinson. That is double the amount for all of April, he said. “If a deal is hitting my desk,” he said, “it means there is a liquidity problem.”

U.S. manufacturers are ramping up production of protective gear, but it will take time to meet demand. Alabama said it placed orders for respiratory masks made by 3M Co. Most of Alabama’s orders with vendors for all types of protective equipment remain outstanding, said Tim Hatch, deputy director of the state’s emergency-preparedness department. “We are getting a trickle of deliveries on our large orders.”

States, hospitals and others expected the federal government to step in to provide supplies in this type of emergency. But since the coronavirus crisis began, hospitals and states have said the nation’s safety net of medical-equipment supplies, the Strategic National Stockpile, has fallen far short in providing gear.

A Department of Health and Human Services spokeswoman said the stockpile “was never designed to serve as the nation’s safety net for an extended, nationwide pandemic” but was intended to supplement state and local governments.



California Highway Patrol officers guard the State Capital grounds during a May 6 protest.

PHOTO: PAUL KITAGAKI JR./ZUMA PRESS

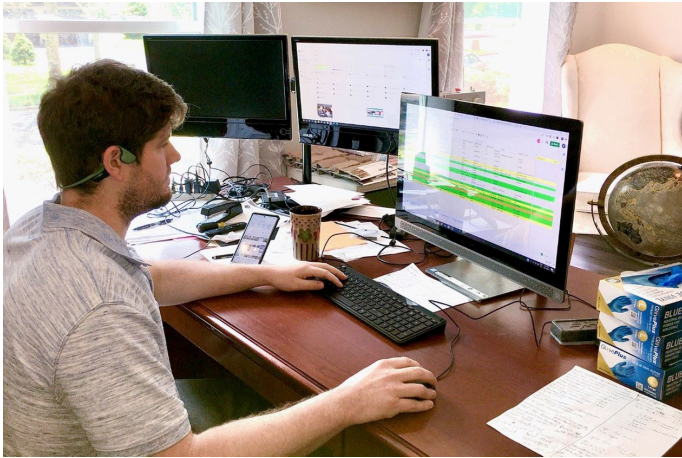
Mike Sprayberry, director of emergency management in North Carolina, said his state had received three allotments from the national stockpile, contributing a fraction of the state’s overall needs. North Carolina has received only about 11% of what it has ordered from private vendors, he said. Ellington Churchill, who runs the Maryland state office overseeing procurement, said: “You have to turn over every stone you can find to come up with the materials we need.”

Mistakes can be costly. Mr. Collipp, a former antiques-store owner who works from his Pennsylvania living room, said a deal he arranged got delayed when the equipment was stuck in Chinese customs. A labeling error forced his Chinese associates to relabel 10,000 boxes of masks, only to discover the masks were low quality and had to be replaced by another supplier.

## **Seized shipments**

The federal government at times has diverted protective equipment arranged in deals by brokers and others bound for hospitals or firefighters. The Federal Emergency

Management Agency last month seized a shipment of respirator masks at New York's John F. Kennedy airport that a small Delaware seller of hazmat suits imported from China, documents show. The firm, Indutex USA, had orders to sell about 125,000 masks to buyers including nursing homes, a children's hospital and a police department, said George Gianforcaro, its president.



Mr. Collipp working from his living room.

PHOTO: COLLIPP FAMILY

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*Is there a better way for America to procure personal protective equipment, given the circumstances? Join the conversation below.*

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A document signed by FEMA's top official ordered his company to sell his masks to FEMA for "national defense use," according to a copy reviewed by The Wall Street Journal. The order also applies to any other equipment he receives until June 1. The government since has seized two additional shipments, or a total of 500,000 masks, Mr. Gianforcaro said.

A FEMA spokeswoman said the agency "is not seizing or taking personal protective equipment from state or local governments, hospitals, or any entities who are lawfully engaged in transactions through which these resources are distributed."

She said FEMA detained Indutex USA's masks in part to ensure they meet applicable safety standards, and as part of an initiative with the Justice Department to combat illegal hoarding and price-gouging. FEMA could decide to keep the masks or require the importer to sell them at reasonable prices, she said in late April.



Workers produce medical N95 masks in Chongqing, China, in March.

PHOTO: WANG QUANCHAO/XINHUA/ZUMA PRESS

After the seizure, the National Institute for Occupational Safety and Health tested 20 with the same packaging as those seized at JFK airport and found they didn't meet U.S. standards for N95 masks and weren't Niosh approved as the packaging claimed, according to a document posted on the Niosh website. The FEMA spokeswoman referred questions on those tests to the Justice Department, which declined to comment.

Indutex USA's Mr. Gianforcaro said on Thursday that the Niosh-tested masks were his. A Chinese testing lab certified them to be N95s meeting Niosh standards, he said, and if they weren't, he wanted to return them. "I'm in the safety business," he said. "I've never sold a product that failed a test or made false claims."

As for any question of profiteering, Mr. Gianforcaro said he had to pay the Chinese factory upfront, incur financing and shipping charges, and is selling the masks below the market rate.

Last month, broker Alexis Wong said, she negotiated a \$1.5 billion deal for 300 million respiratory masks located in the U.K. with a broker representing a Miami financial-consulting company. The shipment was scheduled for Los Angeles.

Before completing the deal, she said, she discovered the broker had provided a fraudulent proof-of-funds letter. "After I found out the letter was doctored," said Ms. Wong, who works at Hong Kong-based trading company Serene Graceful Ltd., "the guy just disappeared."

## **Policing the brokers**

Mackenze McAleer, a former Marine military policeman in Boulder, Colo., set up the online trading group using the Telegram messaging app, seeking to create a marketplace to better police some of these deals. He said a business contact asked for help selling a large supply of hand sanitizer.

He reached out to business contacts in agriculture, cannabis and cryptocurrency. It turned out many were already trading in medical supplies or looking for a way to, he said. The fast-growing group has become a kind of private version of Craigslist, where members post offers and needs—sometimes hundreds of millions of masks, gloves or



Mackenze McAleer of Boulder, Colo., set up an online marketplace for protective equipment.

PHOTO: MANDALENA GREENLEE

gowns—before leaving Telegram to sort a deal’s details.

Swindlers and price gougers have accessed the group, Mr. McAleer said, and part of his job has been policing. One member defrauded another out of an advance payment of \$75,000 in cryptocurrency, and the money was lost, he said.

Mr. McAleer said that last week he expelled a member who brokered a protective-gear sale to two state governments. When the buyer learned that the shipment was being held in California and not in Texas as promised, the broker raised the price, despite the buyer’s having already placed payment in escrow, Mr. McAleer said.

John Cataldi, a member from Florida, said he balked when he realized he was preparing to do business with a broker who sent a confirmation video for respiratory masks that appeared to be a recording of a video on a television screen. Mr. Cataldi suggested to the broker that Mr. Cataldi send an inspector to the warehouse and open an escrow account; the broker disappeared.

“We’re trying to reinvent the supply chain when normal channels become broken,” said Mr. Cataldi. “We’re rewriting the playbook in double overtime.”

Blue Flame's Mr. Gula, until a few months ago, ran a Republican fundraising business from an office near the U.S. Capitol, decorated with a framed picture of Ari Gold, the fictional talent agent in the television series "Entourage" known for his bravado.

At the end of March, Mr. Gula quit the successful fundraising business he ran for more than a decade and launched Blue Flame. Within days, he had made millions of dollars in deals for masks, gloves and other medical supplies via a manufacturer in China, according to public records the Journal reviewed.

Blue Flame has since lost a \$600 million deal with California, and multimillion-dollar deals with Maryland, Tennessee and Alabama have collapsed after Blue Flame didn't come through, according to officials in those states.

The Tennessee deal fell through because prices of masks and gowns had risen, a Blue Flame official said. The official said the state had deposited about half of the down payment required on a \$5 million order. Mr. Gula pestered the state for the remainder over the next week. By the time Tennessee sent Blue Flame the rest of the money, prices had shot up 20% and the state walked away, the Blue Flame official said, adding that the company ate thousands of dollars in credit-card fees on the transaction.



Medical staff before entering a Covid-19 patient's room at Stamford Hospital in Stamford, Conn., in April.

PHOTO: JOHN MOORE/GETTY IMAGES

A Tennessee spokesman said Blue Flame "couldn't deliver on price or timing."

California canceled its contract after vetting the company, according to emails and state officials. On March 26, California officials were preparing to send a wire transfer for a roughly \$450 million down payment on a \$600 million contract for masks and supplies, emails reviewed by the Journal show.

Hours later, California officials canceled that contract. The deal began to unravel when California's bank found the wire transfer suspicious and alerted the Federal Bureau of Investigation because Blue Flame's bank account had been opened only one day earlier, according to emails and California officials. Officials with the state of California didn't respond to a request for comment.

The Justice Department has launched an investigation into Blue Flame, according to a person familiar with the matter.



At a news conference Wednesday, Maryland Gov. Larry Hogan said “it is unconscionable that anyone would try to exploit this pandemic for profit or for personal gain.”

Blue Flame continues its deal efforts. It had done a \$5,000 contract with the Melbourne, Fla., police department for face shields. A Melbourne police spokesman on Friday said that the face shields arrived this week but that the department is in the “process of canceling any outstanding orders” and has asked for a refund.

—*Mark Maremont and Alejandro Lazo contributed to this article.*

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