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Why American Mask Makers Are Going Out of Business

By

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DealBook newsletter

Efforts to make the supply chain more resilient after pandemic shortages are no match for low-price foreign products, the companies say.



Credit...Scott McIntyre for The New York Times

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The DealBook newsletter delves into a single topic or theme every weekend, providing reporting and analysis that offers a better understanding of an important issue in business. If you don't already receive the daily newsletter, [sign up here](#).

Mike Bowen has spent much of the pandemic saying, “I told you so,” and you can hardly blame him. [Back in 2005](#), just as low-cost Chinese manufacturers were taking over the personal protective equipment industry, Bowen joined a friend who had started a small surgical mask company called Prestige Ameritech. The plan was to

market his company's masks to American hospitals and distributors as a way to provide resilience — a means of ensuring domestic supply if the supply chain ever broke down.

“Every company had left America,” he recalled recently. “The entire U.S. mask supply was under foreign control.” He remembers warning customers, “If there's a pandemic, we're going to be in trouble.”

At first, Bowen's sales pitch wasn't very successful. But in 2009, the swine flu virus caused a mask shortage in the United States. Suddenly, Prestige Ameritech had a lot of customers. “We went from 80 employees to 250,” Mr.

Bowen says. “The phones were ringing off the hook. We thought, ‘People finally get it. We’re going to fix this problem.’”

He was wrong. As soon as the swine flu pandemic ended, the company’s new customers went right back to buying inexpensive masks from China; Chinese manufacturers soon [controlled 90 percent of the American market](#).

“The cost savings was like crack cocaine for American hospitals,” Mr. Bowen said.

Even so, Mr. Bowen never stopped telling anyone who would listen that the offshoring of personal protective equipment — which includes nitrile

gloves, hospital gowns and respirators, as well as surgical masks — would create big problems for the U.S. the next time it faced a pandemic.

Which, of course, is exactly what happened. Just weeks into the Covid-19 pandemic in 2020, the supply chain for protective equipment had broken down, creating severe shortages that cost lives. A black market emerged, full of con men and get-rich-quick schemers.

A handful of U.S. entrepreneurs decided they would do their part by manufacturing masks.

In Miami, a family-owned surgical device company, DemeTech, spent

several million dollars to expand its facilities, build machines and hire hundreds of employees; by the fall of 2020, it was capable of churning out five million masks a day, according to Luis Arguello Jr., vice president of the company. “We took a risk as a family,” he said.

Image

Credit...Scott McIntyre for The New York Times

In Houston, Diego Olmos, a manufacturing expert who had recently left a multinational company, used his severance to help start a mask-making company called Texas Medplast. “My business partner and I said, ‘This is the

right thing to do,” he said.

In Lindon, Utah, an entrepreneur named Paul Hickey helped found PuraVita Medical to make KN95 respirators.

It is hard to know precisely how many of these companies were born during the pandemic; 36 of them are members of the American Mask Manufacturer’s Association, which they formed to lobby Washington. Virtually all experienced the same boom and bust phenomenon that Mr. Bowen had in 2009. At first, customers who could no longer obtain masks through their normal supply channels were beating down their doors. The same was true

during the Delta and Omicron waves, when masks were also scarce.

But as soon as the waves crested, and Chinese companies, determined to regain their market share, began exporting masks below cost, the customers disappeared.

“All the hospitals and government agencies and retailers that had been begging for American products suddenly said, ‘We’re good,’” said Mr. Hickey.

Today, these small U.S. mask manufacturers are in dire straits — if they haven’t gone out of business already. DemeTech has laid off nearly all the employees it hired to make

masks, and it has shut most of its mask manufacturing center. Mr. Olmos, his severance long gone, expects Texas MedPlast to be out of business soon barring a miracle. And PuraVita Medical? “We’re on the verge of losing it all,” Mr. Hickey told me.

The government’s answer to this pattern is its own buying power. During his State of the Union address on Tuesday night, President Biden promised that the government would begin to rigorously enforce provisions in the law that call for the federal agencies to buy American-made goods whenever possible.

“Everything from the deck of an aircraft

carrier to the steel on highway guardrails” would be made in America, he vowed.

How the Supply Chain Crisis Unfolded

Card 1 of 9

The pandemic sparked the problem.

The highly intricate and interconnected global supply chain is in upheaval.

Much of the crisis can be [traced to the outbreak of Covid-19](#), which triggered an economic slowdown, mass layoffs and a halt to production. Here’s what happened next:

The plight of these small mask

companies, however, suggests that reviving American manufacturing — even when the underlying rationale is national security — won't be easy.

“Resilience is the byword of the day,” said Marc Schessel, a hospital supply chain expert who is working to develop alternative supply chains for personal protective equipment. And resilience — that is, creating extra manufacturing capacity that can get the country through an emergency — is what the small mask makers say is their value to the country. Sure, they argue, a globalized, just-in-time supply chain for low-cost protective equipment is fine in ordinary times. But we've learned

these past two years that the country needs domestic manufacturers if we hope to avoid terrible shortages during the next pandemic, and the one after that.

But how do you create that resilience? The federal government spent [\\$682 billion buying goods and services](#) from contractors in 2020, according to Bloomberg Government. That's the sum the Biden administration wants to use to buy American products. And while it's hardly chump change, it's only about 3 percent of America's [\\$21.5 trillion economy](#).

The mask manufacturers I interviewed for this article said the Biden

administration had expressed interest in buying their masks, but it has yet to happen. Even if it did, it would be unlikely to put much of a dent into Chinese dominance. As Mr. Bowen put it in a recent email to the White House, “Hospitals drive the mask market.” Since their incentives are to reduce costs, he wrote, “Any plan that allows imported masks to cost less than U.S. made masks will result in a foreign government controlled U.S. mask supply — as currently exists.”

To put it another way, the modern imperative of maximizing shareholder value will always put efficiency and cost over resilience.

The mask manufacturers are a microcosm of a larger problem. Today, there are shortages that go well beyond personal protective equipment. Things as diverse as semiconductors and garage doors are in short supply — all products whose manufacturing was offshored during the past decades as American companies embraced just-in-time supply chains and inexpensive foreign labor. Economists and corporate executives ignored resilience, and now the country doesn't have a clear idea how to create it, even as its necessity has become obvious.

Mr. Bowen told me that the problem for small U.S. mask manufacturers could

be solved by either banning imported masks or putting hospitals on notice that they would be legally liable if their purchases of imported masks meant they could not protect their staff or patients in a future emergency. He also acknowledged that neither situation was realistic.

Early in the pandemic, in a move intended to ensure access to essential supplies during crises, the Japanese government earmarked \$2.3 billion in subsidies to [companies that moved manufacturing to Japan from China](#).

The U.S. federal government could take a similar tack, which would allow U.S. mask manufacturers to match

Chinese prices. The problem is that if the government subsidized every vital product that required supply chain resilience, it would get awfully expensive.

Despite the president's vow to have the government buy American, the most likely scenario remains what it has been for months: the small mask manufacturers will go out of business, hospitals will continue to import Chinese masks — and the country will again be caught short when the next pandemic arrives.

What do you think? Should the government do more to protect American manufacturers of essential

supplies? What would be most
effective? Let us know:

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