

# COVINGTON

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May 13, 2020

The Honorable Elizabeth Warren  
309 Hart Senate Office Building  
Washington, D.C. 20510

The Honorable Richard Blumenthal  
706 Hart Senate Office Building  
Washington, D.C. 20510

## **Re: McKesson Corporation**

Dear Senator Warren and Senator Blumenthal:

This letter responds on behalf of McKesson Corporation<sup>1</sup> to your letter of April 27, 2020 regarding Project Airbridge and related issues.

McKesson's Medical-Surgical ("MMS") business provides medical supplies, healthcare solutions, distribution services, and related resources. MMS offers over 300,000 products to over 200,000 customers across the United States, including to nursing homes, first responders, home health agencies, health systems, medical practices, surgery centers, and U.S. federal, state, and local governmental entities. MMS does not generally sell and distribute directly to acute-care facilities like hospitals. MMS does not manufacture products, but instead works with over 5,500 suppliers in the United States and overseas to source product for its approximately 62 million deliveries to its customers annually.

McKesson is proud to collaborate with the Federal Emergency Management Agency ("FEMA") on Project Airbridge, which was created to expedite the shipment and delivery of personal protective equipment ("PPE") and other critical supplies to those who need them most – people on the front lines of this pandemic. As a distributor of essential healthcare supplies, McKesson is working to efficiently distribute vital products to facilities that are critical to caring for patients during this pandemic. Every day, McKesson's distribution center workers, fleet drivers, customer service representatives, and other personnel are working around the clock supporting the frontline healthcare workers who are the true heroes of the pandemic response. Project Airbridge is an important part of McKesson's overall commitment to meet this unprecedented challenge head on. McKesson hopes the information contained in this letter is

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<sup>1</sup> McKesson Medical-Surgical is the business unit of McKesson Corporation that is relevant to the requests contained in your letter. Accordingly, this response is based on information provided by McKesson Medical-Surgical.

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helpful in advancing your understanding of Project Airbridge and McKesson's efforts during this pandemic to provide critical medical supplies to those who need them.

### ***Project Airbridge Origins***

Early in the COVID-19 crisis, a number of large medical supply chain companies began to consider how to address supply shortages. An informal coalition of these companies partnered with the Department of Health and Human Services ("HHS") and FEMA to support work being done by the Supply Chain Stabilization Task Force. The Task Force's goals include preserving critical resources, including PPE; accelerating the resupply of those resources; expanding production of those resources; and allocating critical supplies where they are most needed.

To accelerate resupply, members of the coalition believed that using airfreight could speed delivery to medical providers and facilities in the United States. As compared to sea freight shipping, the use of airfreight can save critical weeks in getting needed supplies to nursing homes, medical systems, and others. As one of the country's largest distributors of medical supplies, McKesson was asked by FEMA/Department of Homeland Security ("DHS") to participate in Airbridge. The Government proposed a Memorandum of Agreement ("MOA") between MMS and FEMA/DHS. That MOA with FEMA/DHS governs MMS's participation in Airbridge. The MOA and its initial attachments are appended to this response.

### ***Airbridge Operations***

Under Airbridge, FEMA/DHS provides for the direct transportation costs associated with transport via airfreight, including the flight, fuel, and loading/unloading of the flight. The Government's payment of these transportation costs allows the participating distributors to get products to medical providers and facilities that need them without passing along the substantial costs associated with using airfreight to ship these critically needed supplies.

For Airbridge products, MMS uses its existing personnel and networks worldwide to source the product, whether from MMS's existing suppliers, or from new suppliers who meet its quality standards. MMS performs the quality assurance on the products and purchases the products. MMS transports the products from the source to the airport for customs processing and overseas transport, and then transports the product from the receiving U.S. airport to FEMA and/or into the commercial distribution channel to customers.

MMS is responsible for all Airbridge costs outside of the air transportation itself, including transporting the product from the source to the overseas airport and from the U.S. destination airport into MMS's commercial distribution channel for delivery to customers or ultimate end users. MMS's Airbridge costs may include, for example, duties, taxes and tariffs; airway bill fees; automated manifest system filing fees; costs of packaging product for airfreight, including building and packaging pallets; overhead and operation costs and fees; export clearance and customs-related costs; terminal fees to the air carrier or ground handling agent; express service fees, such as fees for weekend or after-hours work; delivery fees; and warehousing and storage costs. To the extent a given shipment incurs these costs, FEMA does

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not cover them. Aside from the product costs and certain value-specific costs like tariffs and duties, which are the same irrespective of the mode of transportation, many of the Airbridge costs are unique to shipping product via air. It appears that these unique Airbridge-related costs actually exceed the typical total costs of ocean freight for an equivalent amount of product. In other words, the costs per container load of product incurred by MMS for using Airbridge, even without incurring the cost of the air transportation, appear to have exceeded the costs MMS would have incurred for shipping the equivalent amount of product via standard ocean freight. MMS has not endeavored to increase the price it charges customers as a result of these costs and has continued pricing as though the product had been brought to the U.S. via standard ocean freight.

### ***Distribution of Airbridge Product***

Under the Airbridge MOA, MMS has agreed to distribute at least 50% of the number of all supplies (excluding vinyl gloves) shipped via Airbridge to its customers in FEMA-designated priority locations, where FEMA has informed us that they are needed most. Also under the MOA, MMS has agreed to distribute at least 50% of vinyl gloves shipped via Airbridge to its existing nursing home and long term health agency customers nationwide. For details regarding Government-designated priority locations and product distributed under Airbridge, we would refer you to FEMA.

MMS distributes Airbridge product through its normal distribution channels. The 50% determination is generally made on an individual stock-keeping unit (“SKU”) basis — essentially, at least half of each unique type of item on a flight is distributed to the priority areas. In order to distribute product as quickly as possible, if the items on an Airbridge flight are identical to an item already in MMS stock, MMS may release for immediate distribution an equivalent amount from the pre-existing stock in a distribution center, and then use the supply on the Airbridge flight to replace the amounts already released so that they can be made available to MMS customers facing ongoing needs. This process means that customers in FEMA-designated priority locations can receive Airbridge items without having to wait for the Airbridge flight to arrive, be unloaded, and be added into MMS’s network of distribution facilities across the country. This process gets product into providers’ hands as quickly as possible while preventing MMS from completely running out of product for an extended period, which would leave no supply available for ongoing needs and emergencies.

For items shipped under Airbridge that are not vinyl gloves and are not part of the 50% of product MMS is sending into FEMA-designated priority locations in accordance with the MOA, MMS distributes based on its usual practices when facing a supply shortage. As an initial matter, this entails setting a customer-specific allocation derived from what MMS knows of that customer’s historical demand for these items. When MMS becomes aware of customers experiencing exceptional needs far beyond historical demand, or experiencing a genuine need for products they did not previously buy, such as due to a confirmed outbreak of COVID-19, MMS makes efforts to provide products to those customers outside of the standard allocation process.

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### ***Pricing of Airbridge Product***

MMS's pricing practices for PPE during this crisis are designed to keep prices fair and protect against unwarranted increases in prices. MMS is making these pricing decisions in the face of rapid increases in its cost of acquiring critical products, which have been particularly acute over the past month. MMS believes this is driven by the limited supply of these products, skyrocketing demand for the finished product, and an increase in cost of raw materials that are needed to manufacture these products. To give an extreme example, reports indicate that the cost of the raw material used to make N95 and 3-ply ear loop masks has increased to nearly forty times (40x) pre-crisis costs.

Early in the crisis, MMS instructed its sales team to price products fairly, as they normally would under typical market conditions; directed that personnel not raise prices without reason; and monitored prices on COVID-19-related items to help ensure pricing remained within the normal spreads MMS would expect under typical market conditions.

In addition, MMS has adopted stringent pricing measures for select product types, including products related to diagnostic imaging; hand hygiene; PPE such as masks, gowns, and eye protection; and respiratory therapy. Under these measures, if the cost for MMS to acquire the product has not changed, an existing customer would pay the lower of its current price or its last price paid a reasonable time before the Proclamation on Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak, but in no case would the customer pay more than the cost of the product plus an amount consistent with McKesson's gross profits (in dollars and cents) on that product prior to the pandemic. If the cost for MMS to acquire the product subsequently increases, MMS will only adjust prices to account for the cost increase and will not increase its gross profit. For these selected product types for existing customers that have not previously purchased a particular covered product before, for new customers buying existing MMS products, and on new products generally, MMS will set its price at the current cost of the product plus an amount consistent with MMS's gross profits (in dollars and cents) on that or similar products prior to the pandemic.

These pricing practices apply above and beyond MMS's agreement under the Airbridge MOA to distribute product at "reasonable prices (*i.e.*, the price that a prudent and competent buyer would be willing to pay given available data on market conditions)." MMS is not aware of how FEMA is monitoring and enforcing compliance with that requirement, though we recognize FEMA's desire to ensure that Airbridge supplies are not sold at inappropriately high prices. As described above, and consistent with the MOA, McKesson is committed to maintaining reasonable prices for Airbridge products.

### ***FEMA Seizures***

MMS is aware of press reports regarding alleged seizures of product by FEMA or others. If FEMA has engaged in such seizures, MMS is not aware of having been directed to distribute any seized supplies.

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McKesson appreciates this opportunity to respond to your questions. Please let us know if you require additional information.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. Kelner', with a long horizontal flourish extending to the right.

Robert K. Kelner

Encl.

**MEMORANDUM OF AGREEMENT  
BETWEEN  
THE DEPARTMENT OF HOMELAND SECURITY  
FEDERAL EMERGENCY MANAGEMENT AGENCY (DHS/FEMA)  
AND  
McKesson Medical-Surgical Inc.**

**I. Parties:**

The parties to this Memorandum of Agreement (“Agreement”) are the Department of Homeland Security/Federal Emergency Management Agency (DHS/FEMA) and **McKesson Medical-Surgical Inc. (“MMS”).**

**II. Authority:**

This Agreement is authorized under the provisions of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121 et seq.

**III. Purpose:**

This Agreement sets forth the terms by which DHS/FEMA (or, with DHS/FEMA’s coordination, the U.S. Department of Health and Human Services (HHS)) will transport Personal Protective Equipment or other medical supplies (hereinafter “PPE”) on behalf of **MMS**. The effort underlying this agreement is intended to facilitate the ability of **MMS** to rapidly provide critical PPE items that are currently in short supply to locations and health care professionals where it is needed most, including end users such as but not limited to hospitals, nursing homes/long term care facilities, and state and local governments. In consideration of DHS/FEMA’s agreement to transport PPE at the Government’s expense, **MMS** agrees to distribute, in accordance with their responsibilities set forth below, a minimum of 50% of the total transported PPE items to DHS/FEMA designated locations specified in Attachment B. Each party will cooperate to carry out its respective responsibilities under this agreement.

**IV. Responsibilities:**

**A. DHS/FEMA Responsibilities:**

1. DHS/FEMA (or HHS) will transport, by air, PPE owned by **MMS** to the United States from the locations identified in **Attachment A**.
2. DHS/FEMA (or HHS) will use existing authority to arrange air transportation services.
3. DHS/FEMA (or HHS) will deliver the shipments to the locations designated in **Attachment A**.
3. DHS/FEMA will provide a list of locations in the United States that are of the most pressing need for PPE with some direction to **MMS** on the relative degree

of need by location (i.e., prioritization). The list will identify specific counties within a given State, and, to the extent DHS/FEMA has information, direction on the specific products of greatest need for a given location.

**B. MMS Responsibilities:**

1. **MMS** agrees to cooperate to the fullest extent possible with assisting DHS/FEMA (or HHS) at point of origin and point of destination to facilitate the shipment of PPE.
2. **MMS** agrees to provide a reasonable estimate of the value of the shipment at least 48 hours prior, to the fullest extent possible, to the shipment for purposes of arranging service with a transportation service provider.
3. **MMS** agrees that upon receipt of the PPE shipment in the United States, **MMS** will distribute at least 50% of the number of PPE medical supplies (excluding vinyl gloves) to **MMS's** existing customers in the locations specified in **Attachment B**, which DHS/FEMA and HHS have determined have the most pressing need. For avoidance of doubt, sales of PPE directly to FEMA from the "first flight" shall be deemed to be distribution to the locations specified in Attachment B, and any future sales of PPE directly to FEMA shall not be deemed to be distribution to the locations specified in **Attachment B**, unless otherwise agreed to by the parties. DHS/FEMA reserves the right to amend the list of locations specified in **Attachment B** at any time.
4. In addition, **MMS** will distribute at least 50% of the vinyl gloves to existing MMS customers who are nursing homes/long term health agencies located within the United States.
5. **MMS** agrees to use best efforts to confirm distribution of the PPE to the locations specified in **Attachment B** via an email to FEMA containing a report on the locations, name of recipient healthcare facilities, and amount of PPE per healthcare facility, but FEMA acknowledges that for items that MMS currently sells under existing item numbers it will be impossible to trace items at the lot level after such items are placed into MMS's core inventory as most medical supply items are not currently traced by lot. If the PPE is placed into a warehouse for use only for expedited COVID-19-related shipments, MMS will be able to demonstrate proof of delivery to FEMA as described in the preceding sentence.
6. **MMS** agrees to take possession of the PPE shipped at Government's expense at the point of arrival (i.e., the airport). The point(s) of arrival is set forth in **Attachment A**.
7. **MMS** agrees to distribute the PPE to its customers at reasonable prices (i.e., the price that a prudent and competent buyer would be willing to pay given available data on market conditions).

**V. Points of Contact:** All notices or other written communication related to this MOA shall be in writing and shall be deemed to have been given by the notifying party if delivered

by hand, electronic media (with confirmed receipt) or mailed by an overnight delivery service, to the receiving party's below identified contractual representative:

<b>MMS</b>	<b>DHS/FEMA</b>
Name: Stanton McComb, President	Name: William Roy
Address: McKesson Medical-Surgical, Inc. 9954 Maryland Drive Richmond, VA 23233	Address: DHS-FEMA 500 C Street SW, 2SW-0603 Washington, DC 20472
Telephone:	Telephone:
Email: Stanton.mccomb@mckesson.com	Email: William.f.roy@fema.dhs.gov

With a copy to:

<b>MMS</b>	<b>DHS/FEMA</b>
Name: Kevin DeBorde, AGC	Name: Mike Cameron
Address: McKesson Medical-Surgical, Inc. 9954 Maryland Drive Richmond, VA 23233	Address: DHS-FEMA 500 C Street SW Washington, DC 20472
Telephone: 804.264.3145	Telephone:
Email: kevin.deborde@mckesson.com	Email:

#### **VI. Other Provisions:**

A. Nothing in this Agreement is intended to conflict with current law or regulation or the directives of DHS/FEMA. If a term of this Agreement is inconsistent with such authority, then that term shall be invalid, but the remaining terms and conditions of this Agreement shall remain in full force and effect.

B. This agreement with MMS is not contingent upon, or made on the expectation of, any agreement between the U.S. and any other private company. Moreover, MMS will comply with the agreement without regard to the participation or non-participation in the program, or the terms thereof, of any other private company.

C. **Risk of Loss.** All PPE furnished, loaned or bailed by **MMS** to DHS/FEMA or HHS, or otherwise not acquired by DHS/FEMA for the performance of this MOA are the property of **MMS**. DHS/FEMA shall not charge **MMS** for any storage, maintenance or return of any PPE, except in the circumstance that FEMA must store the shipment due to **MMS's** failure to timely take possession of the shipment at the point of destination. Except as provided for in writing, **MMS** shall bear all risk of loss for all such PPE in DHS/FEMA's possession or for which DHS/FEMA is responsible, and DHS/FEMA will not be liable for



any loss or damage to the PPE during shipment, occurring prior to delivery of the PPE to **MMS**, or resulting from improper packing and marking, improper loading, stowing, trimming, blocking, and/or bracing of the shipment.

D. This Agreement is between DHS/FEMA and **MMS** and does not confer or create any right, benefit, or trust responsibility, substantive or procedural, enforceable at law or in equity, onto any third person or party (public or private) against the United States, its agencies, its officers or employees, or any person; or against **MMS**, its officers or employees, or any other person.

E. This Agreement is not a fiscal or funds obligation document. Any services, equipment or personnel provided to DHS/FEMA to accomplish the goals anticipated under this agreement are done so without expectation of reimbursement or the payment of fees related to the provision of such services, equipment, or personnel, except as provided in Section IV.B.7, unless otherwise agreed. Any specific work or activity that involves the transfer of funds, services, or property among the parties will require execution of a separate agreement and will be contingent upon the availability of appropriated funds. Such activities must be independently authorized by appropriate statutory or other legal authority. This Agreement does not provide such authority. **MMS** agrees that it has no expectation of payment from FEMA for the services described herein and agrees to waive any claim for compensation of any kind from FEMA or any payment from FEMA in relation to FEMA's transportation of **MMS's** PPE.

F. This Agreement, upon execution, contains the entire agreement of the parties and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter.

VII. Effective Date:

The terms of this Agreement will become effective upon the signature of both parties.

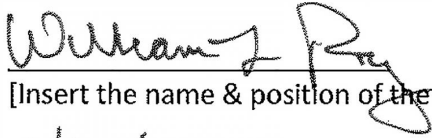
VIII. Modification:

This Agreement may be modified upon the mutual, written consent of the parties.

IX. Termination:

The terms of this Agreement, as modified with the consent of both parties, will remain in effect until **MMS** has confirmed the delivery information for the PPE as specified in Section IV.B.5. The Agreement may be extended by mutual written agreement of the parties. Either party upon 5 days' written notice to the other party may terminate this Agreement.

X. Approved by:

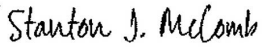


[Insert the name & position of the official signing for DHS/FEMA]

3/28/20

Date

DocuSigned by:



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Stanton McComb, President

March 28, 2020

Date

## FEMA COVID19 / MCKESSON / China

Departure Airport	Arrival Airport	Departure Date / Time	Arrival Date/ Time	Payload Max kg	Description of Payload Contents	Payload Cartons	Payload Actual kg
Shanghai	JFK, NY	3/29/2020 0500	3/29/2020 0955	100,000.00			
Shanghai	Chicago	3/30/20 0500	3/30/20 0750	100,000.00			
Shanghai	Columbus OH	3/31/20 0815	3/31/20 0745	100,000.00			
Shanghai	Columbus OH	4/1/2020 2035	4/01/20 1720	100,000.00			
Shanghai	Columbus OH	4/02/2020 2305	4/03/20 0205	100,000.00			
Shanghai	Chicago	3-Apr		100,000.00			
Shanghai	Chicago	4-Apr		100,000.00			
Shanghai	Chicago	6-Apr		100,000.00			
Shanghai	Chicago	8-Apr		100,000.00			

**FEMA COVID19 / MCKESSON / Malaysia**

Departure Airport	Arrival Airport	Departure Date / Time	Arrival Date/ Time	Description of Payload Contents	Payload Cartons	Payload Actual kg
Kuala Lumpur	Chicago	4/1/2020 1510	4/02 0020			
Kuala Lumpur	Chicago	5-Apr				
Kuala Lumpur	Chicago	7-Apr				
Kuala Lumpur	Chicago	9-Apr				
Kuala Lumpur	Chicago	4/10				
Kuala Lumpur	Chicago	12-Apr	13-Apr			
Kuala Lumpur	Chicago	12-Apr	13-Apr			
Kuala Lumpur	Chicago	4/15				
Kuala Lumpur	Chicago	4/17				

County Name	State	State FIPS	County FIPS
Los Angeles	CA	6	6037
Orange	CA	6	6059
San Diego	CA	6	6073
San Francisco	CA	6	6075
San Mateo	CA	6	6081
Santa Clara	CA	6	6085
Denver	CO	8	8031
Eagle	CO	8	8037
El Paso	CO	8	8041
Jefferson	CO	8	8059
Weld	CO	8	8123
Fairfield	CT	9	9001
Hartford	CT	9	9003
Litchfield	CT	9	9005
New Haven	CT	9	9009
Tolland	CT	9	9013
Washington	DC	11	11001
Broward	FL	12	12011
Duval	FL	12	12031
Hillsborough	FL	12	12057
Miami-Dade	FL	12	12086
Orange	FL	12	12095
Palm Beach	FL	12	12099
Bartow	GA	13	13015
Cobb	GA	13	13067
DeKalb	GA	13	13089
Dougherty	GA	13	13095
Fulton	GA	13	13121
Cook	IL	17	17031
DuPage	IL	17	17043
Kane	IL	17	17089
Lake	IL	17	17097
Will	IL	17	17197
Caddo	LA	22	22017
East Baton Rouge	LA	22	22033
Jefferson	LA	22	22051
Orleans	LA	22	22071
St. Tammany	LA	22	22103
Essex	MA	25	25009
Middlesex	MA	25	25017
Norfolk	MA	25	25021
Suffolk	MA	25	25025
Worcester	MA	25	25027
Genesee	MI	26	26049
Macomb	MI	26	26099
Oakland	MI	26	26125

County Name	State	State FIPS	County FIPS
Washtenaw	MI	26	26161
Wayne	MI	26	26163
Bergen	NJ	34	34003
Essex	NJ	34	34013
Middlesex	NJ	34	34023
Monmouth	NJ	34	34025
Union	NJ	34	34039
Nassau	NY	36	36059
New York City	NY	36	36061
Rockland	NY	36	36087
Suffolk	NY	36	36103
Westchester	NY	36	36119
Allegheny	PA	42	42003
Bucks	PA	42	42017
Delaware	PA	42	42045
Montgomery	PA	42	42091
Philadelphia	PA	42	42101
Davidson	TN	47	47037
Knox	TN	47	47093
Shelby	TN	47	47157
Sumner	TN	47	47165
Williamson	TN	47	47187
Bexar	TX	48	48029
Dallas	TX	48	48113
Harris	TX	48	48201
Tarrant	TX	48	48439
Travis	TX	48	48453
Addison	VT	50	50001
Bennington	VT	50	50003
Chittenden	VT	50	50007
Windham	VT	50	50025
Windsor	VT	50	50027
King	WA	53	53033
Pierce	WA	53	53053
Skagit	WA	53	53057
Snohomish	WA	53	53061
Whatcom	WA	53	53073