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Tariffs: Catalyst of Financial Distress or Driver of Value?

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As the cornerstone of the current administration's economic policy, tariffs and global trade issues more generally have been the subject of intense news coverage and public debate for the past eight months. The United States has seen a sharp increase in the imposition of tariffs, particularly targeting steel, aluminum, and a range of manufactured goods from key trading partners such as China, the European Union, Canada, and Mexico. The consequences of these tariffs, and threatened tariffs, have rippled through the economy, with pronounced effects on the manufacturing, automotive, and consumer goods sectors. As companies in these industries—many already carrying significant leverage and facing economic strain—face mounting financial pressures, the intersection of trade policy and bankruptcy law has become increasingly salient.

Trade policy and trade wars are complex and their interaction with bankruptcy can present both risks and opportunities, depending entirely on where an affected business sits in the value chain. Tariffs logically contribute to financial distress in key industries, such as automotive and home appliances, where raw materials, finished goods, or both are frequently sourced from abroad and end consumer demand is elastic. However, tariffs can also enhance the value of domestic assets and attract new investment in bankruptcy asset sales as companies seek access to turnkey onshore production capacity to avoid tariffs, credit

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December Dates to Remember:

7th: Pearl Harbor Day
25th: Christmas Day
31st: New Year's Eve

markets, and bankruptcy outcomes requires careful analysis and a nuanced understanding of both economic and legal dynamics.

I. Tariffs as a Catalyst for Financial Distress

At their most basic level, tariffs directly increase the cost of imported raw materials, components, and finished goods, leading directly to higher production costs. Increased costs cannot always be fully recovered through price increases, particularly in highly competitive markets where substitutes abound, end customers' switching costs are low, and price sensitivity is a delicate balance. As a result, profit margins may become compressed, leading to declining earnings and cash flows.

New or heightened tariffs also have the potential to disrupt supply chains, creating challenges in securing timely access to materials and products. The search for alternative suppliers or changes to processes and logistics can result in production delays, on top of increased costs, further disrupting financial stability. Impacted companies consistently identify tariffs as a material risk to profitability in their public filings.

Tariffs can also exacerbate—and provide distressed businesses a convenient scapegoat for—existing vulnerabilities. If a company is already grappling with increased competition, declining demand, operational missteps, excessive leverage, or pending litigation (among myriad other potential factors), the imposition of tariffs may be the proverbial last straw that precipitates a liquidity crisis, insolvency, or both. Although frequently cited as the cause of financial distress, it is important to remember that tariffs are nearly always just one of several contributing factors. Just as every distressed or insolvent retailer blames online competition for its plight, it has become exceedingly common for companies in 2025 to blame their financial woes on tariffs, which are external and uncontrollable, rather than anything within management's control. A closer look typically reveals deeper issues spanning a longer period, with tariffs merely the catalyst.

Tariffs unquestionably lead to strained relationships between trade creditors and their customers, increasing uncertainty as to payment both in and outside of bankruptcy. Trade creditors should stay vigilant and proceed with caution when working within industries impacted by tariffs, but the outlook is not all doom and gloom.

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II. Tariffs as a Driver of Value in Bankruptcy

While the negative effects of tariffs are well documented and widely publicized, tariffs may actually enhance the value of a debtor's assets in bankruptcy in certain circumstances. Where a chapter 11 debtor owns onshore manufacturing assets or raw materials, the overlay of heightened tariffs can enhance the value of those assets or even attract new buyers, potentially increasing the pool of funds available for distribution to creditors (or at least reduce a secured lender's deficiency claim, in the modern chapter 11 paradigm).

Tariffs increase the relative value of domestic manufacturing assets, intellectual property, and established distribution networks by making offshore sourcing more costly. Distressed businesses that own these types of assets often attract higher bids from strategic purchasers seeking to obtain or expand U.S.-based production. This economic reaction furthers the intended purpose of imposing tariffs in the first place.

The buyers acquiring distressed domestic manufacturing assets and other resources fall into two camps: foreign producers that historically exported materials and goods into the United States from nations that are now subject to heavy tariffs, and domestic businesses that historically imported goods from those countries. Many times, those two camps are even bidding against one another for the same onshore assets. The net result is more money in the seller's bankruptcy estate, heightened prospects of recovery for creditors, and the preservation of jobs and operations (and a customer) that might otherwise have simply been lost to liquidation.

Conclusion

U.S. domestic trade policy has been a bit of a roller coaster for the past eight months but has begun to stabilize in the third quarter of 2025. While the trajectory of tariff policies remains uncertain, companies and their advisors must remain vigilant in monitoring developments and assessing their implications for the financial health and bankruptcy risk of their customers, their vendors, and even themselves. Businesses must carefully assess the specific circumstances of each case, including the debtor's industry and asset base and the prevailing tariff environment. Whether tariffs ultimately serve as a catalyst for distress or a driver of value will depend on a host of factors, including industry structure, company-specific circumstances, and the broader policy landscape. Paying close attention to policy shifts and market responses in real time is crucial to mitigating risk and achieving optimal outcomes.

About the authors:

Andrew Behlmann leverages his background in corporate finance and management to approach restructuring problems from a practical, results-oriented perspective. With a focus on building consensus among multiple parties that have competing priorities, Andrew is equally at home both in and out of the courtroom, and he has a record of accomplishment of turning financial distress into positive business outcomes. Clients value his counsel in complex Chapter 11 cases, where he represents debtors, creditors' committees, purchasers, and investors.

Colleen Restel advises clients on all aspects of complex financial restructuring matters. She represents creditors' committees, tort claimant committees, individual creditors, post-confirmation fiduciaries, securities plaintiffs, and other interested parties, whom she guides through the development and implementation of innovative solutions and strategies aimed at maximizing recoveries and achieving results.

Colleen has a strong record of accomplishment in bankruptcy-related litigation involving the investigation, prosecution, and defense of actions against officers, directors, and lenders, including fraudulent transfer actions; and in representing clients in contested confirmation hearings. Prior to joining Lowenstein, she practiced commercial litigation—both within and outside of the bankruptcy context—at a New Jersey-based law firm, where she focused on complex discovery and trials for clients in the pharmaceutical, real estate, retail, and other sectors.

A former term clerk to the Hon. Rosemary Gambardella of the United States Bankruptcy Court for the District of New Jersey, Colleen remains active in the New Jersey bankruptcy community as a member of the Lawyers Advisory Committee for the New Jersey Bankruptcy Court and as an active member and board member of several restructuring-industry related organizations; she also frequently writes and speaks on bankruptcy and credit-related trends.

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*United Kingdom only

For more information on how to get started please contact NACS Credit Services at nacskc@nacskc.com

Credit Professionals Alliance has been working hard to provide our clients with the most up-to-date webinars concerning today's challenges in the credit field. Watch your email for upcoming registration information on all the following webinars.

December 2nd: **Proactive, Predictive, Powerful:**
AI for Modern Credit Teams

December 4th: **Tariffs as a Catalyst for Financial Distress and Bankruptcy or a Driver of Value**

December 17th: **How to Improve Collection Performances Immediately**

Be sure to check out our website www.nacskc.com/education.html for additional educational opportunities as these are constantly being updated.

Are you looking for Certification and Certificate opportunities? Credit Professionals Alliance can lead you in the right direction, contact Rhonda Ross for additional information at rross@nacskc.com or (913) 383-9300.

Educational Update:
Credit Research Foundation Webinars

December 2025

CRF offers a variety of educational programs: Proctored Courses, On-Demand Courses as well as webinars.

March 23-25, 2026	March Forum—Charleston, SC
August 10-12, 2026	August Forum & Expo—Denver, CO

It is very simple to participate: Go to http://www.crfonline.org and click on the Education.

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The following webinars are being offered by NCS Credit to register for these go to: https://www.ncscredit.com/education-center/events/

December 9th: Basics of the Lien and Bond Claim Process

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