



MAKING SENSE #1

**Iranian Proxies
and the Dynamics
of Lithium
Battery Trade**

As the global economy transitions away from fossil fuels and moves toward a greener future, the lithium battery industry is poised for significant growth, expected to expand fivefold by 2030. This shift could generate over \$400 billion in annual revenue worldwide. Lithium batteries have become indispensable to modern life, powering everything from smartphones and electric vehicles to renewable energy storage systems. Currently, 75% of lithium-ion batteries are used in consumer electronics, driving both convenience and sustainability. With their lightweight and high-energy-density properties, lithium batteries are not only transforming daily life but also fostering innovation and job creation across industries globally.

Beyond their vital role in various industries, the potential connection between Iranian proxies and the lithium battery supply chain raises intriguing questions. This warrants a closer examination of the manufacturing process, global distribution, and how these proxies may be working to protect Iran's interests, potentially prioritizing Iran's benefits over those of their own countries.

The manufacturing process encompasses multiple phases, including extraction and processing of raw materials like lithium, cobalt, nickel, graphite, manganese, aluminum, and copper, electrode preparation, separator manufacturing, cell assembly, formation process, battery pack assembly, quality control and testing, and packaging. Nations actively participating in lithium battery production gain a competitive edge, especially in the electric vehicle industry, influencing manufacturing, infrastructure, and related services. Global key players in the battery production landscape include China (CATL), South Korea (Samsung SDI, LG Chem), Japan (Panasonic, Sony), the United States (Tesla), and Germany (Volkswagen, BMW). Other European countries and certain Gulf Cooperation Council (GCC) nations, notably Saudi Arabia, explore lithium battery production aspects, highlighting their ongoing contributions to a fast growing global market that spans major trading routes worldwide. Specifically, the Red Sea stands out as a crucial trade route between Asia, the Middle East, and Europe, facilitating 10 percent of world trade by volume.

The conflict in the Red Sea, driven by Iranian proxies, seems to be part of a larger strategy to enhance Iran's leverage in the evolving global economy. By destabilizing key maritime routes, Iran is likely positioning itself to play a crucial role in future trade negotiations. This approach mirrors China's Belt and Road Initiative, where the strategic redirection of trade routes secures economic influence. Iran's goal may be to reroute vital trade flows through its territory, forcing global players to engage with Iran in order to access key markets.

In contrast, nations like India and Saudi Arabia backed up by United States are developing technology-driven trade corridors that bypass Iran entirely, creating direct routes from South Asia and the Gulf to Europe. These emerging pathways, which focus on innovation, infrastructure, and digital connectivity, threaten to sideline Iran's geopolitical influence in regional trade. The current conflict in the Red Sea underscores Iran's desire to remain indispensable in global trade dynamics by ensuring that key routes must pass through its territory, much like the historical Silk Road. This is a clear effort to counterbalance the growing importance of alternative routes that do not involve Iran, such as those promoted by India and Saudi Arabia.

While potentially advantageous for Iran, this conflict has resulted in significant destruction in Gaza and Lebanon, leading to their exclusion from economic benefits. Lebanon, in particular, faces heightened isolation compared to Gaza. The alignment of these conflict zones with Iran's broader strategy has resulted in devastating consequences for Gaza and Lebanon, including destruction, loss of human lives, territorial damage, and compromised negotiating privileges. Highlighting the substantial impact of the Red Sea conflict on the global economy and its role in enhancing Iran's negotiating power, the conflict has disrupted trade to the extent that automakers Tesla and Volvo Car suspended production in Europe due to component shortages. Prolonged avoidance of the Suez Canal has raised concerns about the transportation of essential goods, crucial for battery production. Geopolitical tensions in the Red Sea region have disrupted the supply chain for vital minerals like lithium, cobalt, and nickel, essential for battery manufacturing, leading to uncertainties and price volatility. Despite these challenges, the demand for batteries, driven by electric vehicle adoption and renewable energy storage, continues to rise. Altered shipping routes from Asia to Europe and North America have resulted in a significant surge in freight rates, with Asia-North Europe rates increasing by 173%, Asia-Mediterranean prices doubling, and North America East Coast rates rising by 52%.

Unfortunately, shifts in economic power are often accompanied by conflict. For smaller nations like Lebanon, it is essential to prioritize the country's interests and the well-being of its citizens over external affiliations. However, in Lebanon, Iranian proxies have been advancing Iran's agenda, allowing Tehran to wield significant influence over critical decisions related to war and peace, primarily for its own benefit.

One clear example of this is the role of Hezbollah, Iran's primary proxy in Lebanon. Armed with financial and military support from Iran, Hezbollah has not only dominated Lebanon's political and security landscape but has also positioned itself to capitalize on emerging economic opportunities.

With the global shift towards green energy, Hezbollah has taken control of the local solar energy market, becoming the main supplier of affordable Chinese solar panels, converters, batteries, and even offering credit to finance these purchases through AQAH, a shadow banking system that has been under international sanctions since 2007.

This "one-stop" energy solution has made Hezbollah a key player in Lebanon's energy sector and a beneficiary of the lithium battery supply chain cycle, much in the same way Iran seeks to gain from this emerging market in the aftermath of the devastating war. In a country grappling with crippling power shortages and unreliable electricity, solar power and batteries have become a lifeline for Lebanese citizens. Yet, this dynamic further entrenches Hezbollah's power and influence, tying vital energy access to the group's broader political and economic agenda, which is aligned with Iran's interests.

By monopolizing the renewable energy market, Hezbollah ensures that its control over Lebanon extends beyond politics and security into critical economic infrastructure. This situation prevents Lebanon from independently pursuing its own national interests, forcing the country to bear the costs of decisions made in Tehran. As a result, Lebanon is increasingly shaped by external forces, leaving its citizens to pay the price for the benefit of other nations.