Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: The Editorial Board

Will the agreement between the EU and Indonesia lead to a power shift in supply chains?

Negotiations between Indonesia and the European Union on a free trade agreement have been ongoing for nine years. That was enough time for both sides to formulate their priorities and concerns.

After intensive rounds of negotiations in Brussels, culminating in a meeting on 6 June between the Indonesian Coordinating Minister for Economic Affairs, Airlangga Hartarto, and EU Trade Commissioner Maroš Šefčovič, it was announced that the remaining outstanding issues would be resolved by the end of June.

This date signifies the finalisation of negotiations, which started in 2016, following nearly a decade of discussions on tariffs and regulations.

The agreement provides for the elimination of tariffs on around 80% of Indonesia's exports to the EU, including the key industries of footwear, textiles, palm oil, and fisheries.

In addition, the agreement will abolish numerous non-tariff requirements that previously restricted Indonesian producers' access to the single market of almost 500 million consumers.

In this context, officials in Jakarta expect exports to the EU to increase by more than 50% in the next three to four years, thanks to the diversification of the market and the removal of barriers they face when exporting to the US.

On the European side, the agreement is part of a broader strategy for strategic autonomy in the Indo-Pacific region.

Brussels is seeking to strengthen ties with the major economies of Southeast Asia to reduce its dependence on China, which has already been granted privileged access to the vast market under the Regional Comprehensive Economic Partnership (RCEP).

The EU also wants to set standards for digital trade, investment facilitation and trading in critical minerals. This is crucial for the development of the technologies of the future.

A model for future trade negotiations

During the negotiations, the most severe disputes regarded the demands for the protection of tropical forests and for restrictions on the export of palm oil, which feeds Indonesia's rural economy.

The EU insisted on a strict ban on products linked to deforestation, while Indonesia’s representatives pointed to the risk that the income of millions of small producers could disappear completely.

To maintain economic stability, both sides agreed on transitional arrangements that give Jakarta a period of time to gradually adjust production to European standards.

Simultaneously, the announcement was made that international development banks and expert agencies would offer technical and financial assistance to facilitate a swift and seamless transition to sustainable practices.

> The EU expects better conditions for the export of critical minerals and non-renewable raw materials

The approval, which includes the elimination of tariffs, is also accompanied by an agreement on the rules for local content in the automotive sector, where Indonesia wants to protect its electric vehicle industry.

In return, the EU expects better conditions for the export of critical minerals, non-renewable raw materials that are essential for batteries and high-tech components.

Such an exchange shows how comprehensive the agreement is and how far more significant it is than traditional trade agreements, where only customs tariffs are exchanged.

For the EU, this agreement is a test for a harmonised trade policy, as the Union insists on the inclusion of human rights, climate and sustainability issues in trade agreements.

In Indonesia, negotiators are challenged to strike a balance between agricultural development and biodiversity protection in the face of massive deforestation and local political resistance.

The successful implementation of the agreement could serve as a model for future trade negotiations with areas affected by environmental risks.

Achieving balance

The political implications for Indonesia are not just about economic growth but also about internal divisions.

Local leaders on the islands of Sumatra and Kalimantan recall their dependence on palm oil exports, while civil society organisations call for stricter measures to protect worker rights and vulnerable communities.

This balance within the country may affect the pace of ratification of the agreement in parliament, where a compromise must be found between industry interests and environmental concerns.

> The legislative path requires harmonisation with existing laws on public procurement, tax rules and quality standards

On the European side, the legislative path requires the approval of the European Parliament and member states, which necessitates harmonisation with existing laws on public procurement, tax rules, and quality standards.

The ratification process is expected to begin in the second half of 2025, and the agreement could enter into force in early 2026 if there are no additional legal obstacles.

In the coming months, the EU will intensively harmonise its trade mechanisms with countries in the Indo-Pacific region to create a comprehensive cooperation framework.

At the same time, Jakarta will implement a mix of market liberalisation and protective measures to mitigate its impact on sensitive sectors.

Tariffs will be phased out, and palm oil processors and electronics manufacturers will be provided the opportunity to demonstrate compliance with the new rules by the end of 2025 at the latest.

A turning point in EU trade policy

The EU expects the first deliveries of critical minerals and technological components as early as the beginning of 2026.

The interconnection of trade routes will shift part of the supply from China to Southeast Asia and vice versa, with logistics centres in Rotterdam and Singapore growing.

Jakarta will have a unique opportunity to modernise its industry and diversify its exports beyond their traditional markets - Palm oil plantation

The development of the agreement will show how quickly and effectively it can trigger a realignment of global supply chains.

Further trade initiatives in Asia and Africa are already on the horizon, and the EU is seeking to capitalise on the experience gained from negotiations with Indonesia.

Success in this round could lead to similar agreements with Vietnam, Kenya and other countries that seek economic growth while conserving natural resources.

This agreement marks a significant shift in EU trade policy, demonstrating the Union's willingness to modify its standards and procedures to foster enduring partnerships.

Jakarta, in turn, will have a unique opportunity to modernise its industry and diversify its exports beyond their traditional markets. The process will demonstrate the willingness of governments and businesses to adapt their policies and redirect global trade flows.