

GABON
ASSESSMENT OF THE IMPACT OF
TOBACCO EXCISE TAX
INCREASES ON PRICE,
CONSUMPTION AND TAX
REVENUE OVER 2018-2021

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Gabon

Assessment of the Impact of Tobacco Excise Tax Increases on Price, Consumption and Tax Revenue over 2018-2021¹

Executive Summary

The Health Impacts of Tobacco Use

The scientific evidence accumulated over the past five decades is clear: tobacco kills. Smokers who begin early in adult life and do not stop smoking face a three-fold higher risk of death compared to otherwise similar non-smokers, resulting in a loss, on average, of at least one decade of life (Jha and Peto 2014). Smoking is the second-leading cause of death globally (GBD 2015 Collaborators). Both active smoking and exposure to secondhand smoke cause disease and kill prematurely (Marquez and Moreno-Dodson 2017). More than 7 million people die from tobacco use every year, a figure that is predicted to grow to more than 8 million a year by 2030, in the absence of intensified global action (WHO 2017). Annually, the number of deaths from tobacco-attributable diseases exceeds the deaths from HIV/AIDS, tuberculosis, and malaria combined (WHO 2008). Most of these deaths are due to direct tobacco use, while close to 10 percent of deaths are the result of non-smokers' exposure to secondhand smoke.

Developing countries and vulnerable groups face health risks associated with tobacco use, and with e-cigarettes. Low- and middle-income countries (LMICs) face an increasing burden of noncommunicable diseases (NCDs), which are now the leading cause of death in the world, killing 40 million people each year and representing 70 percent of all annual deaths (WHO 2018). Eighty percent of deaths due to tobacco-related NCDs—cancer, cardiovascular disease, chronic lung disease, and diabetes— occur in LMICs, straining health care systems, contributing to poverty, and posing a major barrier to development. An estimated 40 percent of the global economic costs of tobacco use are already borne by these countries, and there is a risk that the costs will escalate if effective and sustained tobacco control action is not supported over the short and medium term.

In Gabon, according to available data from the Demographics and Health Survey (DHS), it is estimated that among people aged 15-49 years old, the prevalence of smoking was 22.3% among men and 2.9% among women. This prevalence of smoking was found to be the highest among the countries which conducted DHS in the African region. In Gabon, tobacco use is among the ten leading risk factors that drive the most death and disability (IHEM 2017).

Policy Instruments for Tobacco Control

Since 2005, 181 countries, including Gabon, have become parties to the Framework Convention on Tobacco Control (FCTC). The FCTC now covers nearly 90 percent of the world's population. Over the past decade, progress has been made in expanding the coverage of the FCTC's supply- and demand-reduction tobacco control measures (WHO 2015).

The Effectiveness of Taxes on Tobacco

Tobacco taxes are recognized as an effective policy tool to reduce tobacco use. As such, the prime objective of tobacco taxes is to improve health outcomes (World Bank 1999; Petit and Nagy 2016; Marquez and Moreno-Dodson 2017). To achieve this aim, aggressive increases in tobacco

¹ This assessment was prepared by a team coordinated by Patricio V. Marquez, WBG, including Alberto Gonima (WBG Consultant, modelling work), as well as Sonia Barbara Ondo Ndong (WBG) and El Hadji Sidy DIOP (WBG Consultant), that collected required data, information, and comments on an initial draft. April 25, 2019.

taxes are required to influence cigarette smokers to stop or sharply cut back their tobacco consumption and to persuade young people not to initiate this addictive habit. The positive impacts of higher tobacco taxes and prices go beyond direct health gains and indirect benefits such as reduced health care expenditures and higher productivity (Furman 2016). Increasing tobacco taxes can also enlarge a country's tax base to augment domestic resource mobilization (Marquez 2016a, 2016b, 2016c). This can expand the fiscal space for priority investments and programs, including the expansion of universal health coverage, education for all, and other activities to help countries achieve the SDGs.

Impact Assessment of New Tobacco Taxation in Gabon

The impact assessment on Gabonese cigarettes price, consumption and revenue carried out in this document, focuses on the tobacco excise tax that was sharply increase in 2018 with the adoption of the new tax code per Article 250 of the Gabonese Financial Law, which was amended effective July 2018. The government decision to adopt the recommendations for the higher specific excise tax of 300 XAF rather than the option of 200 XAF per 20 cigarettes pack, is effective as assessed in this report.

Price and Income Elasticity of Demand

Gabon is classified by the WBG as an upper-middle income country (UMIC). The price elasticity selection (-0.6 for economy imported brands and -0.4 for premium imported brands) is based on the findings of the International Agency for Research on Cancer (IARC, 2014) where “*the price elasticity for demand for high income countries (HIC) is estimated to be -0.4 and between -0.6 and -0.8 in low- and middle-income countries (LMIC)*”.

The adopted income elasticity for smokers of premium brands is 0.4, like in high income countries, while for smokers of economy brands is 0.8, like in low-income countries.

The selected price and income elasticity are considered to be a realistic assumption as assessed during the calibration of the simulation model (see Annex I Box 2, for further details).

Modelling Tobacco Tax Impact Assessment for 2018-2021 in Gabon

In conducting the modelling work, the World Bank Group (WBG) team considered the commitment of the Gabonese Government and the recommendations of the Gabonese Tax Administration Authority to: i) reduce tobacco consumption and hence associated public health risks; ii) increase the government excise tax revenue; iii) harmonize the tobacco excise tax structure in compliance with CEMAC provisions; and iv) introduce a mixed system for excise taxation (specific and ad valorem excise taxes) for selected consumption products including tobacco.

The simulation model, adapted to the Gabonese tax structure, assessed the potential impact of tobacco tax policy measures on tobacco prices, consumption, and domestic resource mobilization.

Two policy scenarios were assessed:

- **Scenario 1: Actual situation in 2017, and 2018-2021 new excise tax projections (New tax code scenario):** The simulation model, was calibrated using the 2017 tax structure modified in 2015 (including the ad valorem increase from 30% to 32%). For the period 2018-2021 the simulation used the new excise tax structure effective January 2018 as adopted per the World Bank Group (WBG)-funded fiscal DPO, including a

reduction to 25% in ad valorem excise rate, and the introduction, per Rectifying Finance Law No. 023/2018 of 30 July 2018, of a new uniform specific excise tax of 300 XAF per 20 cigarettes pack.

- **Scenario 2:** For 2020-2021, it is proposed to maintain the 25% ad valorem rate compliant with CEMAC but increase the uniform specific excise tax from 300 XAF to 375 XAF in 2020, and 470 XAF in 2021, equivalent to an increase of 25% each year. Such increase would be compliant with CEMAC as well as with the Article 6 of the Framework Convention on Tobacco Control (FCTC) ^{2 3}.

Results

Table 1 summarizes the results of modelling excise tax increases in Gabon for the period 2018 – 2021, including the expected results of the new excise tax code for 2018, and revenue mobilization options. The table compares the Government adopted tobacco excise tax already included in the Gabonese current tax code for 2018 -2019, and policy options for 2020 – 2021.

Reduction in Consumption and Increased Tobacco Tax Revenue

Under Scenario 1:

Consumption: The expected reduction in total cigarettes taxed (as a proxy of consumption) is estimated to **fall sharply by 11.4% in 2018**, remaining equal or with small increase of 0.8% in 2019, and 0.2% 2021 both in 2020 and 2021, in part due to no specific excise increase being considered, and the fact that the expected nominal retail price increases of a pack of 20 cigarettes, may fall due to the combination of 2.4%, 0.4%, and 0.3% projected inflation for 2019, 2020, and 2021, respectively, and projected per capita GDP growth of 3.0%, 2.5%, 2.5%⁴, respectively, for the same years (see Annex I Box 1).

Tax Revenue: Total tobacco tax revenue collected (import duty, excise taxes, and VAT) would increase from 14.17 billion XAF (US\$24.4 million and 0.16 of GDP) projected for 2017 to:

- 25.1 bln. XAF (US\$43.1 million) in 2018 (0.27% of GDP)
- 25.7 bln. XAF (US\$44.1 million) in 2019 (0.26% of GDP)
- 26.1 bln. XAF (US\$44.8 million) in 2020 (0.25% of GDP)
- 26.5 bln. XAF (US\$45.5 million) in 2021 (0.24% of GDP)

Under Scenario 2:

Consumption: The risk of consumption increase observed for the period 2019-2021 under Scenario 1 is controlled, as the expected reduction in total cigarettes taxed (as a proxy to consumption) is estimated to fall by 2.6% in 2020, and 3.7% in 2021.

² The Guidelines for implementation of Article 6 of the WHO FCTC recommend: “When establishing or increasing their national levels of taxation Parties should take into account – among other things – ... changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence”.

³ Gabon signed and ratified the FCTC on August 22, 2003, and on February 20, 2009, respectively, and the FCTC entered into force on May 21, 2009.

Tax Revenue: Although the proposed tax increase does not reach yet the desirable 75% in total tobacco tax burden as percentage of average retail price for a pack of 20-cigarettes, it would gradually increase from 49.4 projected in 2019, to 51.1% in 2020, and 52.2% in 2021, demonstrating the need to increase the taxes year to year in compliance with Article 6 of the FCTC, and consistent with international best practices which impose uniform specific taxes that are adjusted regularly to account for inflation and increases in average incomes. Tobacco tax revenue would increase as follows:

- 28.6 bln. XAF (US\$49.2 million) in 2020 (0.27% of GDP)
- 32.0 bln. XAF (US\$55.0 million) in 2021 (0.29% of GDP)

In addition to maintaining tax increases above expected inflation and per capita GDP growth, the proposed policy option under Scenario 2 provides a desirable leveling of retail prices per pack comparable with other CEMAC states. The WHO Global Tobacco Report of 2017 shows that in Gabon, even after increasing the specific excise tax to 300 XAF per pack, the average retail price remains below other CEMAC countries such as Central African Republic and Chad (at 2016 prices) ((see Box E1 below). However, by increasing the specific tax to 375 XAF per pack by 2020, and to 470 XAF by 2021, as contemplated under Scenario 2, the retail price would increase to US\$2.55 and US\$2.84 per pack, respectively, similar to the 2016 average retail prices in Central African Republic and Chad.

Box 1: Cigarette prices and taxes in Gabon and other CEMAC countries

CEMAC Member States	Most recently reported price of Marlboro pack		Excise rates	
	XAF	USD	Specific (XAF per pack)	Ad valorem, %
Gabon	1000	1,74	0	32
	1338 [1]	2.30 [1]	300	25
Equatorial Guinea	1000	1,74	0	25.5[2]
Cameroon	1000	1,74	70[3]	25[3]
Central African Republic (in 2014)	1500	2,61	x	x
Chad	1500	2,61	0	13
Congo	1112	1,93	40[4]	24[4]

Data sources: WHO report on the global tobacco epidemic [*] (Annex IX), 2017. "X" = data not available.

[*] World Health Organization. WHO report on the global tobacco epidemic 2017. Monitoring tobacco use and policies. 2017; Available from: http://www.who.int/tobacco/global_report/en/.

[1] WBG Staff estimates (blue shaded)

[2] Altair Marta. IVA e a CPLP. Slide 32 <https://www.slideshare.net/djelany/iva-e-a-cplp>

[3] Mesures relatives à la Fiscalité des produits du tabac. 2016; Available from: http://apps.who.int/fctc/implementation/database/sites/implementation/files/documents/reports/cameroon_2016_annex4_taxation.pdf

[4] Taxation of tobacco products in Congo (Source: Needs Assessment Report 2015). 2015; Available from: <http://apps.who.int/fctc/implementation/database/sites/implementation/files/documents/reports>

Table 1: Gabon Current Tobacco Excise Tax Code and Proposed Tax Policy Measures for 2020-2021: Summary

Government Revenue Type	Year	Gabon Tax Code New Article 250 January 2018	Policy Option (scenario 2) 25% ad valorem, and increase specific excise tax 2020/21	Difference
New Tax Code and Policy Scenarios (Forecast)	2018	<i>New tax 25% ad valorem & XAF 300/per pack</i>	<i>Same as new tax code</i>	
Average excise tax (XAF per 1000 pieces)		XAF 19,111		
Total tobacco excise tax revenue (million XAF)		XAF 14,404		
Total tobacco excise tax revenue (US\$ million)		\$ 24.74		
Total government tobacco tax revenue (million XAF) [1]		XAF 25,114		
Total government tobacco tax revenue (US\$ million)		\$ 43.14		
Current Tax Code vs. Proposed Tax Policy Measure (projected)	2019	<i>New tax 25% ad valorem & XAF 300/per pack</i>	<i>Same as new tax code</i>	Difference
Average excise tax (XAF per 1000 pieces)		XAF 19,235		
Total tobacco excise tax revenue (billion XAF)		XAF 14,611		
Total tobacco excise tax revenue (US\$ million)		\$ 25.10		
Total government tobacco tax revenue (billion XAF) [1]		XAF 25,652		
Total government tobacco tax revenue (US\$ million)		\$ 44.07		
Current Tax Code vs. Proposed Tax Policy Measure (projected)	2020	<i>New tax 25% ad valorem & XAF 300/per pack</i>	<i>25% ad valorem and a uniform specific tax of 375 XAF/pack</i>	Difference
Average excise tax (XAF per 1000 pieces)		XAF 19,362	XAF 23,112	XAF 3,750
Total tobacco excise tax revenue (billion XAF)		XAF 14,736	XAF 17,101	XAF 2,365
Total tobacco excise tax revenue (US\$ million)		\$ 25.32	\$ 29.38	\$ 4.06
Total government tobacco tax revenue billion XAF) [1]		XAF 26,050	XAF 28,613	XAF 2,563
Total government tobacco tax revenue (US\$ million)		\$ 44.75	\$ 49.16	\$ 4.40
Current Tax Code vs. Proposed Tax Policy Measure (projected)	2021	<i>New tax 25% ad valorem & XAF 300/per pack</i>	<i>25% ad valorem and a uniform specific tax of 470 XAF/pack</i>	Difference
Average excise tax (XAF per 1000 pieces)		XAF 19,493	XAF 27,968	XAF 8,475
Total tobacco excise tax revenue (billion XAF)		XAF 14,870	XAF 19,920	XAF 5,050
Total tobacco excise tax revenue (US\$ million)		\$ 25.55	\$ 34.22	\$ 8.68
Total government tobacco tax revenue billion XAF) [1]		XAF 26,468	XAF 32,034	XAF 5,565
Total government tobacco tax revenue (US\$ million)		\$ 45.47	\$ 55.03	\$ 9.56

WBG Staff estimates

[1] Includes Import duty, excise, and VAT from Customs Administration and CECA GADIS.

Conclusions and recommendations

The simulation modelling done shows that proposed policy options under Scenario 2 are the most effective for controlling tobacco use, while helping to mobilize additional tax revenue. Such increase would be compliant with CEMAC (25% ad valorem), as well as with Article 6 of the FCTC, given that the proposed increase in both years exceed the projected increase in inflation and GDP per capita growth.

A scaled-up and stronger tobacco control effort is required in Gabon to achieve the WHO recommended target of at least 30 percent reduction in smoking prevalence by 2025. This is needed to reduce the risk of ill health, premature mortality, and disability among current and future smokers due to tobacco-attributable diseases.

A reduction in smoking prevalence of this magnitude is also critical to reach the health and social targets of the United Nations Sustainable Development Goals (SDGs) (United Nations 2015). Tobacco use among young people is very price sensitive, with reductions in tobacco use in this group two to three times larger with a given price increase than among adults (WHO, 2015).

The path from policy to reductions in tobacco use depends on the likelihood that a country will implement tobacco control measures, and on the measures' effectiveness (Gravely et al. 2017). Raising taxes sharply on tobacco products, and then adjusting for inflation and increased affordability due to growing incomes, is the single most cost-effective measure to reduce tobacco consumption, and as a positive externality, help mobilize additional tax revenue to expand fiscal space for priority investments and programs.

Empirical findings from global assessments contradict traditional arguments of illicit tobacco trade, employment and regressive effects of tobacco tax increases. Illicit tobacco trade undermines global tobacco prevention and control interventions. However, a recent global report by the World Bank Group (2019) shows that, contrary to tobacco industry arguments, tobacco taxes and prices have only a limited impact on the illicit market share at country level. From a public health perspective, illicit trade weakens the effect of tobacco excise taxes on tobacco consumption—and consequently on preventable morbidity and mortality—by increasing the affordability, attractiveness, and/or availability of tobacco products. Furthermore, tobacco illicit trade often depends on and can contribute to weakened governance. However, evidence presented in the report from over 30 countries across the income and development spectrum, shows that raising tobacco taxes is not the primary cause of illicit trade. The evidence indicates that the illicit tobacco trade is relatively larger in countries with low taxes and prices, while relatively smaller in countries with higher cigarette taxes and prices. Non-price factors such as governance status, weak regulatory framework, and the availability of informal distribution networks appear to be far more important factors.

Policymakers considering tobacco tax hikes are often concerned about impacts on employment. However, increase in tobacco taxes does not negatively affect employment, as evidence from Indonesia shows. Recent assessments done by the World Bank Group (Araujo et al 2018), with the participation of the American Cancer Society, indicate that share to industry-wide employment is about 5 percent, or .60 percent of total employment in Indonesia. This share is smaller in comparison to employment in the food (27 percent), garment (11 percent), and textile (8 percent) sectors in Indonesia. The core-sector employment includes about 2.5 million manufacturing workers: 693 thousand farmers, 1.04 million clove farmers, and 750 thousand

tobacco farmers. Most tobacco sector workers are females and unskilled (66 percent manufacturing workers and 92 percent production workers). About 43 percent of households with tobacco workers are poor; they contribute, on average, to 60 percent of household income. There is also a male-female wage gap: female production workers earn 25 percent less than males. The assessments also estimated that raising cigarette taxes by an average of 47 percent and simplifying the cigarette tax structure to 6 tiers in Indonesia would reduce cigarette demand by 2 percent, increase government revenue by 6.4 percent, and reduce gross employment in tobacco manufacturing sector by only 0.43 percent.

Another often-cited concern among policy makers is that tobacco taxes are regressive, as they disproportionately burden poorer smokers, who spend a larger portion of their incomes on tobacco products, relative to wealthier consumers. To assess this argument, empirical analyses by the World Bank in several countries over 2016–19 provide an in-depth picture of the sociodemographic distribution of tobacco use. The evidence from these countries finds no support for the claims that the impacts are regressive and highlights the relevance of the long-term benefits of increasing taxes on tobacco. Increasing taxes on tobacco can generate health and equity improvements and help mobilize additional domestic resources to expand the fiscal space for priority investments and programs that benefit the entire population, particularly the poor. Indeed, far from unfairly burdening the poor, tobacco taxes deliver the greatest share of their potent long-term benefits to people with low incomes. It is smoking that is regressive and tobacco tax increases that are progressive (Marquez and Moreno-Dodson 2017).

GABON
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I. Introduction

A. The Health Impacts of Tobacco Use

The scientific evidence accumulated over the past five decades is clear: tobacco kills. Smokers who begin early in adult life and do not stop smoking face a three-fold higher risk of death compared to otherwise similar non-smokers, resulting in a loss, on average, of at least one decade of life (Jha and Peto 2014). Smoking is the second-leading cause of death globally (GBD 2015 Collaborators). Both active smoking and exposure to secondhand smoke cause disease and kill prematurely (Marquez and Moreno-Dodson 2017). More than 7 million people die from tobacco use every year, a figure that is predicted to grow to more than 8 million a year by 2030, in the absence of intensified global action (WHO 2017). Annually, the number of deaths from tobacco-attributable diseases exceeds the deaths from HIV/AIDS, tuberculosis, and malaria combined (WHO 2008). Most of these deaths are due to direct tobacco use, while close to 10 percent of deaths are the result of non-smokers' exposure to secondhand smoke.

Developing countries and vulnerable groups face health risks associated with tobacco use, and with e-cigarettes. Low- and middle-income countries (LMICs) face an increasing burden of noncommunicable diseases (NCDs), which are now the leading cause of death in the world, killing 40 million people each year and representing 70 percent of all annual deaths (WHO 2018). Eighty percent of deaths due to tobacco-related NCDs—cancer, cardiovascular disease, chronic lung disease, and diabetes— occur in LMICs, straining health care systems, contributing to poverty, and posing a major barrier to development. An estimated 40 percent of the global economic costs of tobacco use are already borne by these countries, and there is a risk that the costs will escalate if effective and sustained tobacco control action is not supported over the short and medium term.

In Gabon, according to available data from the Demographics and Health Survey (DHS), it is estimated that among people aged 15-49 years old, the prevalence of smoking was 22.3% among men and 2.9% among women. This prevalence of smoking was found to be the highest among the countries which conducted DHS in the African region. **In Gabon, tobacco use is among the ten leading risk factors that drive the most death and disability (IHEM 2017).** See annex sections for additional details on tobacco use and health impact in Gabon.

B. Policy Instruments for Tobacco Control

Since 2005, 181 countries, including Gabon, have become parties to the Framework Convention on Tobacco Control (FCTC). The FCTC now covers nearly 90 percent of the world's population. Over the past decade, progress has been made in expanding the coverage of the FCTC's supply- and demand-reduction tobacco control measures (WHO 2015).

C. The Effectiveness of Taxes on Tobacco

Tobacco taxes are recognized as the most cost-effective policy tool to reduce tobacco use. As such, the prime objective of tobacco taxes is to improve health outcomes (World Bank 1999; Petit and Nagy 2016; Marquez and Moreno-Dodson 2017). To achieve this aim, aggressive increases in tobacco taxes are required to influence cigarette smokers to stop or sharply cut back their tobacco consumption and to persuade young people not to initiate this addictive habit. The positive impacts of higher tobacco taxes and prices go beyond direct health gains and indirect benefits such as reduced health care expenditures and higher productivity (Furman 2016). Increasing tobacco taxes can also enlarge a country's tax base to augment domestic resource mobilization (Marquez 2016a, 2016b, 2016c). This can expand the fiscal space for priority investments and programs, including the expansion of universal health coverage, education for all, and other activities to help countries achieve the SDGs.

II. Modelling the fiscal revenue impact of tobacco tax increases in Gabon

A. Current cigarette market – Retail Price and Consumption Trends

Both cigarettes' domestic production and exports were declining over time and only one company, SOCIGAB, had a monopoly on the manufacturing of cigarettes (Houston brand). Raw materials used to manufacture cigarettes were imported and most of the cigarettes produced in Gabon were exported to Cameroon. By the end of 2015 SOCIGAB was liquidated⁵, and total cigarette consumption is currently from imports.

According to Gabon Framework Convention on Tobacco Control (FCTC) reports, the retail price of a pack of 20 domestic cigarettes (Houston brand) increased from 425 XAF (Central African Franc) in 2012 to 500 XAF in 2014-2015 (about 0.85 USD all years), and the retail price of imported cigarettes (Marlboro) was 900 XAF in 2012-2014 and 1000 XAF in 2015 (about US\$1.80 all years). However, as shown in Table 2, average prices experienced only small increases in the period 2014 to 2017, mostly due to adjustments for inflation and exchange rates variation for imported cigarettes, particularly in 2015-2016, when the exchange rate increased close to 20% (See Annex I-Box 1 Macro-economic Indicators), coinciding with closing of the domestic production factory. Except for an increase in the cigarette ad-valorem excise tax from 30% to 32%, in 2015, changes observed in pricing are consistent with no significant changes in the tax code for that period. As observed in Table 2, both the average cigarette excise tax burden (excise tax as percentage of average retail price) and the total excise tax burden had only small fluctuations in the period 2014-2017.

⁵Source: "La Société des cigarettes gabonaise fait banqueroute, in Le Nouveau Gabon". 2015.

Table 2: Gabon Cigarettes Taxed (as aproxy to consumption) and Retail Prices Trends

Summarized output	Actual 2014	Actual 2015	Actual 2016	Actual/ Baseline 2017:
CIGARETTES				
Total cigarettes taxed (million pieces) [1]	816.0	809.5	803.0	849.3
Average cigarette retail price (XAF per pack)	805.77	811.41	921.13	961.05
Average cigarette price (US\$ per pack)	\$ 1.63	\$ 1.37 [2]	\$ 1.55	\$ 1.65
Average excise tax burden (excise tax as percentage of retail price)	9.7	10.4	11.1	11.1
Average excise tax (XAF per 1000 pieces)	3,905	4,210	5,297	5,358
Average cigarette tax burden (total tax - excise, VAT, import duties and levies as percentage of retail price)	32.8	33.4	34.6	34.7
Percentage change in (year to year):				
Total cigarette consumption (%)		-0.80	-0.80	5.8

[1] Source: Gabonese Customs Administration reports in Kilograms converted to equivalent 1,000 sticks per Kg. (OECD Health Statistics, 2016 - Definitions, Sources and Methods);

[2] Exchange rate increased close to 20% during 2015 (see Annex I Box 1).

The WHO Tobacco Free Initiative compared cigarette affordability in 2016 in different countries, using as a metric percentage of GDP per capita required to purchase 2000 cigarettes of the most sold brand (the higher the %, the less affordable cigarettes are). In Gabon, cigarettes were more affordable than in Cameroon, Chad, Central African Republic, and Congo, all members of the Economic and Monetary Community of Central Africa (CEMAC)⁶. While consumption remained tame in the period 2014–2016 with minimal reduction (-0.8%), during 2017 the Gabonese Customs Administration reported a large increase in cigarette imports; about 6% above previous year. From other countries experience, this situation may reflect tobacco’s industry response to increase inventory in preparation to the expected excise tax increase effective January 2018⁷.

Gabon is an upper middle-income country (UMIC - World Bank list of economies, June 2017), which signed the Framework Convention on Tobacco Control (FCTC)⁸ on August 22, 2003 and ratified it on February 20, 2009. The FCTC entered into force in Gabon on 21 May 2009⁹. On April 11, 2016, the government of Gabon approved a series of new tobacco regulations¹⁰ and the National Tobacco Control Program for 2016-2020 was adopted, which is to be implemented by the National Commission for Tobacco Control. The distribution system of cigarettes is under the responsibility of the Gabonese Tobacco Board, which collaborates with ministries involved in the control of contraband and counterfeit products.

As reported in the 2017 WHO report on the Global Tobacco Epidemic¹¹, Gabon has both specific national government objectives in tobacco control and a national agency or technical unit for tobacco control. Strategies related to the introduction of health warnings and advertising

⁶ WHO report on the global tobacco epidemic (Annex IX), 2017.

⁷ Annual Financial Law (LF 2018) dated January 26, 2018.

⁸ World Health Organization, WHO Framework convention on tobacco control. 2003, Geneva: World Health Organization.

⁹ World Health Organization, The WHO Framework Convention on Tobacco Control: 10 years of implementation in the African Region. 2015: World Health Organization.

¹⁰ Nzuey, G.O., Gabon : Nouvelle réglementation contre le tabagisme, in Gabon Review. 2016.

¹¹ WHO report on the global tobacco epidemic, 2017.

ban are considered as relatively developed while monitoring, smoke-free policies and smoking cessation are at some initial level of implementation. As of 2016, several public places including health-care facilities, educational facilities, government facilities and indoor offices and workplaces were required to be smoke-free with some enforcement measures in place.

B. Gabon Tobacco Taxation

Gabon is a member of the CEMAC, an organization of states of Central Africa established by Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon to promote economic integration among countries that share a common currency, the CFA franc (XAF). In 1999, the Directive No 1/99-CEMAC-028-CM-03 on the harmonization of national legislation on excise duties and added value in CEMAC was adopted¹². Article 57 of this Directive stipulates that the excise duty rates are freely determined by each Member State in the range of 0% to 25%.

The CEMAC guidelines bind States to the measures to be taken. However, the member countries of the union must transpose the community mechanism into their domestic legislation. This explains the diversity of rates (structure and level) prevailing in the subregion (Table 5).

Table 3: Ceiling rate of excise duties applied by other CEMAC member states

Country	Cameroon	Congo	Guinea-Eq.	Chad
Rate	25%	24%	30%	10%

Source: DGI, Presentation Workshop on Tobacco Taxation organized by world Health Organization (WHO) in Libreville from 13 to 14 August 2015.

Compared also with the WAEMU zone (West Africa), the excise tax rates in the CEMAC Zone remain relatively low. For this area, Directive No. 03/98 / CM / UEMOA of 22 December 1998 and No. 03/2009 / CM / UEMOA of 27 March 2009, on the harmonization of the laws of the Member States on excise duties, establishes a range of ad valorem tax rates between 0 and 50%. This constitutes a range with a ceiling rate representing double the ceiling rate of the CEMAC.

By way of illustration on tobacco, as shown in Table 4 below, out of the eight States comprising the WAEMU zone, only two apply rates of less than 40%, while other WAEMU States have a rate of 45%, which is 20 points above the ad valorem tax rate applied in the CEMAC Zone on the same products.

¹² CEMAC Directive n°1/99/CEMAC-028-CM-03 du 17 Décembre 1999 portant Harmonisation des Législations des Etats Membres en matière de T.V.A et de Droit d'accises 1999; Available from: <http://www.droit-afrique.com/upload/doc/cemac/CEMAC-Directive-1999-01-TVA.pdf>.

Table 4: Rate ceiling for ad valorem excise duties applied by UEMOA Member States

BENIN	BURKINA FASO	IVORY COAST	GUINEA BISSAU	MALI	NIGER	SENEGAL	TOGO
40%	30% 40%	35%	25%	45%	45%	45% (this rate is currently 50%)	45%

Source: Presentation of the Head of the Internal Taxation Division WAEMU Commission, workshop organized by the WHO in Kigali on tobacco taxation from 23 to 24 August 2016.

In 2011¹³, the excise tax in Gabon was increased to 30% and in 2015 to 32%¹⁴, which exceeds the maximum CEMAC level. This trend was accompanied by the abolition of the 30% tax deduction applied to the taxable income tax base of locally made products.

CEMAC Directive also recognizes the possibility for States to introduce both specific and ad valorem excise taxes.

In Gabon, the base for calculation of the 32% ad valorem tax is: for imported products, customs value (CIF) plus duties and taxes levied at entry, excluding value added tax (VAT); for locally manufactured products, selling price of the factory, excluding VAT. Based on the recommendations of the Gabonese Tax Administration Authority report dated June 2017¹⁵, the Government in compliance with the CEMAC provisions, decided to reduce the ad valorem excise tax from 30% to 25% for cigarettes, cigars, cigarillos, and tobacco, and introduce a *uniform specific excise tax* of 300 XAF (about US\$0.52) per pack of imported or locally produced cigarettes. Thus, a **mixed tax system** was adopted with a higher specific tax floor, bringing the prices for both economy and premium brand imports (as well as eventually produced local brands) higher. A mixed tax system has both a **uniform specific excise rate and an ad valorem rate** applied to tobacco products, as the one adopted in the European Union (EU)¹⁶.

¹³ Droits d'accises. Loi de Finances Rectificative 2005 2005; Available from:

<http://www.tobaccocontrol.org/files/live/Gabon/Gabon%20-%20Art.%2015%20-%20national.pdf>.

¹⁴ Loi n 022/2014 determinant les ressources et les charges de l'Etat pour l'annee 2015 2015; Available from:

http://www.tresorpublic.ga/wp-content/uploads/2015/07/Budget_loi_de_finances_2015_p.pdf.

¹⁵ Republique Gabonaise Direction Generale des Impots, Etude Sur les Possibilites D'amelioration des Droits D'accises au Gabon, Juin 2017.

¹⁶ World Bank Group, Economics of Tobacco Taxation Tool Kit, WDC, 2018.

Table 5 shows the evolution tobacco taxation over the 2004 to 2018, when certain provisions of the General Tax Code (CGI) were amended and tobacco taxes increased:

Table 5: Evolution of the cigarette tax rate in recent years

The Finance Act n° 18/2004 for the year 2005.		Finance law n° 022/2014 of 19 January 2015		Finance law n° 021/2017 of 26 January 2018		Rectifying finance law n° 023/2018 of 30 July 2018		
Rate	Taxable basis	Rate	Taxable basis	Rate	Taxable basis	Rate	Taxable basis	Excise tax
30%	on import: by customs value plus duties and taxes levied on entry, excluding value added tax; - for locally manufactured products: by the manufacturer's price paid to the public excluding taxes, allocated a reduction of thirty percent (30%).	32%	Excise duties are levied on the same terms as for VAT, on a form provided by the tax authorities. The fees collected are intended to supply the National Fund for the Development of Sport (Art 251 new of the CGI)	25%	on importation: by the customs value plus duties and taxes collected at the entry, excluding the value added tax; - for locally manufactured products: by the ex-factory selling price excluding VAT. The specific tax will be adjusted each year according to the Harmonized Index of Consumer Prices. The terms of this adjustment are determined by regulation	25%	import package: by customs value plus duties and taxes collected on entry, excluding value added tax; - for locally manufactured products: by the ex-factory cost price validated by the Administration	300 XAF per package

Source: Gabonese tax code and financial laws

In addition to the new 25% ad valorem excise tax rate, which has the same base for calculations as the previous 32% excise tax rate, and the 300 XAF uniform specific excise tax, the following taxes apply to tobacco products in Gabon¹⁷:

- Customs Duty – 30% (CEMAC tariff) on the customs value (CIF) for cigarettes and 10% for raw and fine-cut tobacco;
- Community Integration Tax (TCI) - 1% on the customs value (CIF) of goods not originating in CEMAC from 10 January 2003;
- Community Integration Contribution (ICF) - 0.4% on the customs value of goods not originating in ECCAS (Economic Community of Central African States - an organization of 11 African states, including all states of CEMAC) from 1 January 2005;
- Contribution to the Profit of OHADA - 0.05% on the customs value (CIF) of goods not originating in OHADA (Organization for the Harmonization of Business Law in Africa, which is made up of 17 African states, including all states of CEMAC) from 27 January 2005.
- Value Added Tax (VAT) – 18% of the retail sales price, excluding VAT, or 15.25% of the final retail price.

Additional duties on CIF value (up to 31.45% of CIF) are applied on imported cigarettes, which are about 10% of the final retail price. The total tax share, including excise, import duties and VAT, in the final retail price before the 2018 excise tax increase reached was about 35% in 2017 as shown in Table 2.

On the basis of the above information, it would be safe to conclude that the lack of tobacco tax increases before the new tax code adopted in 2018, along other tobacco control measures, did not contribute to decrease smoking prevalence in Gabon. Tobacco products became more affordable and their consumption increased. Although Gabon ratified the FCTC in 2009, only in 2018, the country became compliant with the guidelines for implementation of Article 6 of the FCTC¹⁸ which recommend: *“When establishing or increasing their national levels of taxation Parties should take into account – among other things – ... changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence”*.

¹⁷ Annex 3. Taxation., in Gabon 2016 FCTC Report. 2016

¹⁸ Guidelines for implementation of Article 6 of the WHO Framework Convention on Tobacco Control. 2014; Available from: http://www.who.int/fctc/guidelines/adopted/Guidelines_article_6.pdf.

A summary of the evolution of past and new tobacco tax structures in Gabon is included in Table 6.

Table 6: Gabon Cigarette Tax Structure: 2011-2018

Tax Description	After 2011	2015	New tax 25% ad valorem & F 300/per pack - July 2018 [1]	Tax Base (for calculation purposes)
	XAF	XAF	XAF	
Cigarettes Taxes				
Excise Customs Duty on Imports (ID)	30%	30%	30%	CIF (Cost, Insurance and Freight)
Community Integration Tax (TCI) *	1%	1%	1%	CIF (Cost, Insurance and Freight)
Community Integration Contribution (ICF) **	0.4%	0.4%	0.4%	CIF (Cost, Insurance and Freight)
Contribution to the Profit of OHADA ***	0.05%	0.05%	0.05%	CIF (Cost, Insurance and Freight)
Value Added Tax (VAT)	18%	18%	18%	18% of the retail sales price, excluding VAT, or 15.25% of the final retail price.
Ad valorem excise tax	30%	32%	25%	CIF plus duties and taxes levied at entry, excluding VAT/Ex-Factory price (Domestic brands) excluding VAT.
Specific excise tax (SE)			15.00	Per stick (XAF/stick)
			300.00	Per 20 sticks pack (XAF/pack)
			\$ 0.52	Per 20 sticks pack (US\$/pack)

* Not applicable to the Economic and Monetary Community of Central Africa (CEMAC) region products

** not originating in ECCAS (Economic Community of Central African States - including all states of CEMAC)

*** goods not originating in OHADA (Organization for the Harmonization of Business Law in Africa, including all states of CEMAC)

[1] Source: Annual Financial Law (LF 2018) dated January 26, 2018. Excise Tax on Tobacco products Article 250 of the Tax Code

C. Assessing tobacco tax increases impact on consumption and tax revenue in Gabon

To simulate the fiscal revenue and consumption impact of proposed tobacco tax increases in Gabon in the period 2018–2021, the assumptions and parameters of the simulation model¹⁹ that was constructed are as follows (details are included in tables of Annexes 1 and 2):

¹⁹ The simulation model was adjusted to Gabon's current cigarette excise tax structure (Table 3).

Tobacco taxes are non-distortionary taxes, which have a dual benefit: (i) reduce tobacco-attributable health risks; and (ii) mobilize additional domestic revenues to expand the fiscal space for priority investments and programs that benefit of the entire population.

Price and income elasticity: To carry out a simulation model calibration, and to adapt the model to current Gabon tax code structure and consistent with Gabon being classified by the WBG as upper-middle income country (UMIC)²⁰, the price and income elasticity selected are shown in Box 1. The price elasticity selection is based on the findings of the International Agency for Research on Cancer (IARC, 2014) where “*the price elasticity for demand for high income countries (HIC) is estimated to be -0.4 and between -0.6 and -0.8 in low- and middle-income countries (LMIC)*”. The selected price and income elasticity provided a favorable assumption in the simulation model calibration (see Annex I Box 2, for further details). For income elasticity, when not available it is acceptable to assume similar elasticities from studies made for other UMIC (e.g., for Jamaica, van Walbeek 2004, found statistically significant ranges for Jamaica between 0.51 and 0.89)²¹. The adopted income elasticity for smokers of premium brands of 0.4, is like that of smokers in high income countries, while for smokers of economy brands it could be expected to be like those of low-income countries. In Gabon case, a 0.8 income elasticity for economy cigarettes was proven to be favorable during the model calibration.

Box 1: Tobacco Price and Income Elasticity²²

<i>Cigarette Categories</i>	<i>Tobacco Price and Income Elasticity for UMIC</i>	
Price elasticity for imported economy cigarettes	Value (must be negative)	-0.6
Price elasticity for imported premium cigarettes	Value (must be negative)	-0.4
Income elasticity for imported economy cigarettes	Value (typically positive)	0.8
Income elasticity for premium cigarettes	Value (typically positive)	0.4

Impact Assessment: The simulation model, adapted to the Gabonese tax structure, assessed the potential impact of tobacco tax policy measures on tobacco prices, consumption, and domestic resource mobilization.

As shown in Table 7, two **policy scenarios** were assessed:

- **Scenario 1: Actual situation in 2017, and 2018-2021 new excise tax projections (New tax code scenario):** The simulation model, was calibrated using the 2017 tax structure modified in 2015 (including the ad valorem increase from 30% to 32%). For the period 2018-2021 the simulation used the new excise tax structure effective January 2018 as adopted per the World Bank Group (WBG)-funded fiscal DPO, including a reduction to 25% in ad valorem excise rate, and the introduction, per Rectifying

²⁰ Source: World Bank list of economies (June 2017).

²¹ Economics of tobacco control in Jamaica: will the pursuit of public health place a fiscal burden on the government?; Article · January 2004; Corné van Walbeek, University of Cape Town.

²² Meta-analyses of the relationship between tobacco prices and use suggest that the overall elasticity of demand for adults lies between -0.3 and -0.7 (CBO 2012, IARC 2011, Gallet and List 2003, Chaloupka and Warner 2000).

Finance Law No. 023/2018 of 30 July 2018, of a new uniform specific excise tax of 300 XAF per 20 cigarettes pack.

- **Scenario 2:** For 2020-2021, it is proposed to maintain the 25% ad valorem rate compliant with CEMAC but increase the uniform specific excise tax from 300 XAF to 375 XAF in 2020, and 470 XAF in 2021, equivalent to an increase of 25% each year. Such increase would be compliant with CEMAC as well as with the Article 6 of the Framework Convention on Tobacco Control (FCTC) ^{23 24}.

Table 7: Gabon Tobacco Excise Tax Structure - Alternative Policy Scenarios 2020-2021

Tax Description	New tax 25% ad valorem & F 300/per pack - January 2018 – 2019 (Scenario 1)	Alternative Policy (Scenario 2) 2020: 25% ad valorem and a uniform specific of 375 XAF/pack	Alternative Policy (Scenario 2) 2021: 25% ad valorem and a uniform specific of 470 XAF/pack	Tax Base (for calculation purposes)
	XAF	XAF	XAF	
Cigarettes Taxes				
Excise Customs Duty on Imports (ID)	30%	30%	30%	CIF (Cost, Insurance and Freight)
Community Integration Tax (TCI) *	1%	1%	1%	CIF (Cost, Insurance and Freight)
Community Integration Contribution (ICF) **	0.4%	0.4%	0.4%	CIF (Cost, Insurance and Freight)
Contribution to the Profit of OHADA ***	0.05%	0.05%	0.05%	CIF (Cost, Insurance and Freight)
Value Added Tax (VAT)	18%	18%	18%	18% of the retail sales price, excluding VAT, or 15.25% of the final retail price.
Ad valorem excise tax	25%	25%	25%	CIF plus duties and taxes levied at entry, excluding VAT/Ex-Factory price (Domestic brands) excluding VAT.
Specific excise tax (SE)	15.00	17.50	20.00	Per stick (XAF/stick)
	300.00	375.00	470.00	Per 20 sticks pack (XAF/pack)
	\$ 0.52	\$ 0.64	\$ 0.81	Per 20 sticks pack (US\$/pack)

* Not applicable to the Economic and Monetary Community of Central Africa (CEMAC) region products

** not originating in ECCAS (Economic Community of Central African States - including all states of CEMAC)

*** goods not originating in OHADA (Organization for the Harmonization of Business Law in Africa, including all states of CEMAC)

Source: Excise Tax on Tobacco products Article 250 of the Tax Code - Gabon Ministry of Finance

²³ The Guidelines for implementation of Article 6 of the WHO FCTC recommend: “When establishing or increasing their national levels of taxation Parties should take into account – among other things – ... changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence”.

²⁴ Gabon signed and ratified the FCTC on August 22, 2003, and on February 20, 2009, respectively, and the FCTC entered into force on May 21, 2009.

Modelling results: Tables 8 and 9 present the estimated reduction in cigarettes taxed (as a proxy to consumption) and the amount of tobacco tax revenue generated and as a percent of the country's GDP. To simulate the consumption and additional fiscal revenue needed to calibrate and validate the model, the projections were compared with the 2017 revenues reported by the Gabonese Tax Administration. Per Table 6 data, the projected excise tax revenue for 2017, which was estimated at 4.55 billion XAF, was the metric used to calibrate the model comparing this figure with the 4.47 billion XAF reported for that year (see assumptions Annex I-Table 2). The revenue for the period 2018 was annualized based on available data sets up to November 2018.

Under Scenario 1 (Table 8), the estimated tobacco excise tax revenue **for 2018** is about 14.4 bln. (US\$24.7 million), which is a significant revenue increase equivalent to almost 10 bln. XAF (US\$17 million), above the 4.5 bln XAF (US\$7.8 million) revenue reported in 2017. The total tobacco tax revenue collected (import duty, excise taxes, and VAT) is estimated to increase from the 14.2 bln. XAF (US\$24.3 million or 0.16% of GDP) in 2017 to 25 bln. (US\$43.1 million or 0.27% of GDP) by the end of 2018 (Annex I Box 1 projections), representing an additional tax revenue collection of almost 11 bln. XAF (US\$18.8 million). The expected cigarettes taxed (as a proxy for consumption) is estimated to experience a mayor reduction of about 11.4% according to the imports reported by the Gabonese Customs Administration for the end of the year.

The tobacco excise tax revenue projected for 2019 is 14.6 bln. (US\$25.1 million) or about 0.15% of GDP, representing an increase of close to 208 million XAF (US\$0.36 million at 2019 exchange rate forecast) over projected 2018 tobacco excise tax revenue. The total tobacco tax revenue would increase from the 25 bln. (US\$43.1 million) by the end of 2018 to 25.7 bln. XAF (US\$44.1 million or 0.26% of GDP) in 2019 (Annex I Box 1 projections). The expected number of taxed cigarettes is estimated to slightly increase by 0.8%.

For 2020, the excise revenue would be about 14.7 bln. XAF (US\$25.3 million). The total tobacco tax revenue for 2020 is estimated at 26.1 bln. XAF (US\$44.8 million) or about 0.26% of GDP; and consumption would remain equal or with a minor increase of about .2%.

For 2021, the excise tax revenue would be about 14.9 bln. XAF (US\$45.5 million). The total tobacco tax revenue for 2021 is estimated at 26.5 bln. XAF (US\$17 billion) or about 0.24% of GDP, falling from the initial 0.27% projected for 2018. Consumption would remain equal or with a minor increase of about 0.2%.

Under this scenario, which considers the new excise tax code with the assumption that will be maintained up to 2021, a total tax burden (total tax = import duties + excise + VAT) as percentage of the average retail price of about 50% in 2018 is a significant progress compared to the previous under 35% in 2017. However, by not increasing the excise taxes over the 2020 – 2021 period, the retail price of cigarettes would return to nominal price increases experienced over the 2014-2017 period as a result of expected increase in

inflation. In addition, cigarettes are expected to become more affordable given the expected growth of GDP per capita (used as proxy of real wages growth per employee) over the 2019-2021 period (2019 = 6%; 2020 = 2.6%, and 2.6% in 2021 –Annex I Box 1 projections).

Table 8: Summary of Cigarette Excise Tax Impact: 2018 Forecast and under New Tax Code over 2019-2021

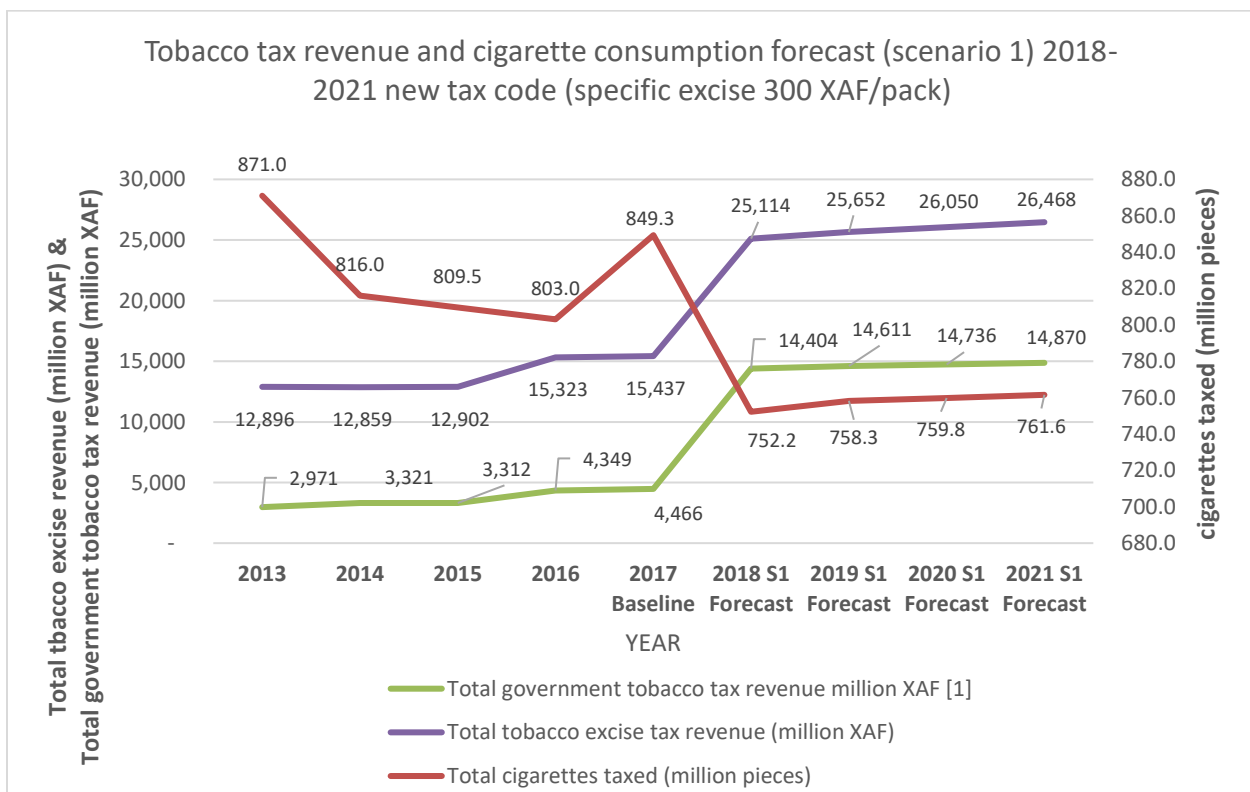
Scenario 1 Output 2019-2021

Government Revenue Type	Actual/ Baseline 2017:	Expected Contribution to GDP	Forecast: New tax 25% ad valorem & XAF 300/per pack -2018	Expected Contribution to GDP	Forecast: New tax 25% ad valorem & XAF 300/per pack -2019		Forecast: New tax 25% ad valorem & XAF 300/per pack - 2020		Forecast: New tax 25% ad valorem & XAF 300/per pack -2021	
Total cigarettes taxed (million pieces) [1]	849.31		752.22		758.26		759.78		761.56	
Average cigarette retail price (XAF per pack)	961.05		1,338.09		1,365.72		1,393.36		1,421.78	
Average cigarette price (US\$ per pack)	\$ 1.65		\$ 2.30		\$ 2.35		\$ 2.39		\$ 2.44	
Average excise tax (XAF per 1000 pieces)	5357.6		19,111.5		19,234.8		19,361.9		19,492.7	
Average excise tax (US\$ per 1000 pieces)	\$ 9.20		\$ 32.83		\$ 33.04		\$ 33.26		\$ 33.49	
Total excise tax revenue (billion XAF) [2]	4.55		14.40		14.61		14.74		14.87	
Total excise tax revenue (US\$ million)	\$ 7.82	0.05 %	\$ 24.74	0.15%	\$ 25.10	0.15 %	\$ 25.32	0.14%	\$ 25.55	0.14%
Total government tobacco tax revenue (Import duty, excise, VAT and levies, billion XAF) [3]	14.17		25.11		25.65		26.05		26.47	
Total government revenue (excise, VAT and levies, US\$ million)	\$ 24.35	0.16 %	\$ 43.14	0.27%	\$ 44.07	0.26 %	\$ 44.75	0.25%	\$ 45.47	0.24%
Average cigarette tax burden (total tax - excise, VAT, duties and levies as percentage of retail price)	34.73		49.69		49.35		49.03		48.72	
Percentage change in total cigarette consumption (%)	5.77		-11.4		0.8		0.2		0.2	
[1] Source 2017 & Jan.-November 2018: Gabonese Customs Administration; annualized to December 2018										
[2] Source 2017 & Jan.-November 2018: Gabonese Tax Administration; annualized to December 20										
[3] includes the VAT from Customs Administration and CECA GADIS tobacco sale reports (2017); projected by the simulation model for 2018. WBG staff estimates										

Figure 1 shows the evolution of total cigarettes taxed as a proxy for consumption from 2013 to date and projections after the new excise tax implementation. The tame reduction during a period of none or limited excise tax increase (2014-2016), the large increase experienced in 2017, which could be explained as a hedging of the tobacco importers increasing cigarette stocks in preparation to the tax increase, and respective 2018 consumption reduction estimated close to 11.4% as a result to the effective introduction of the uniform specific excise tax. Because of the new tax code, the graph shows the large increase in both tobacco excise tax revenue and total tobacco tax revenue.

However, under this scenario, there is a risk of minor consumption increase for the period 2019-2021 as observed in Figure 1. Under the new tobacco tax structure without tax increase, the total tobacco tax as percentage of average retail price for a pack of 20-cigarettes would gradually reduce between 49.4% and 48.7 - **below the recommended level of 75% by WHO and the WBG.**

Figure 1: Gabon Cigarette Excise Tax Projected (Scenario 1) 25% ad-valorem and 300 XAF specific excise tax per pack 2018-2021



Source: WBG Staff estimates

Under Scenario 2: Table 9 present the expected revenue outputs by the proposed tax policy increases.

For 2020, the projected uniform specific excise tax increase from 300 XAF (US\$0.52) to 375 XAF (US\$0.64) per 20-cigarette pack (a nominal increase of 25%), would generate an excise tax revenue of 17.1 bln. XAF (US\$29.4 million or about 0.16% of GDP), representing an increase of close to 2.5 bln. XAF (US\$4.3 million at 2020 exchange rate forecast–Annex I Box 1) over a projected 2019 tobacco excise tax revenue of 14.6 bln. XAF (US\$25.1 million or 0.15% of GDP). The total tobacco tax revenue would increase from 25.7 bln. XAF (US\$44.1 million) projected for 2019 to 28.6 bln. XAF (US\$49.2 million or 0.27% of GDP) in 2020, while the expected number of taxed cigarettes (as a proxy to consumption) is estimated to fall by 2.6%.

For 2021, the tobacco excise tax revenue projected would be about 19.9 bln. XAF (US\$34.2 million). The total tobacco tax revenue for 2021 is estimated at 32.0 bln. XAF (US\$55.0 million or about 0.29% of GDP) and consumption would fall in about 3.7%.

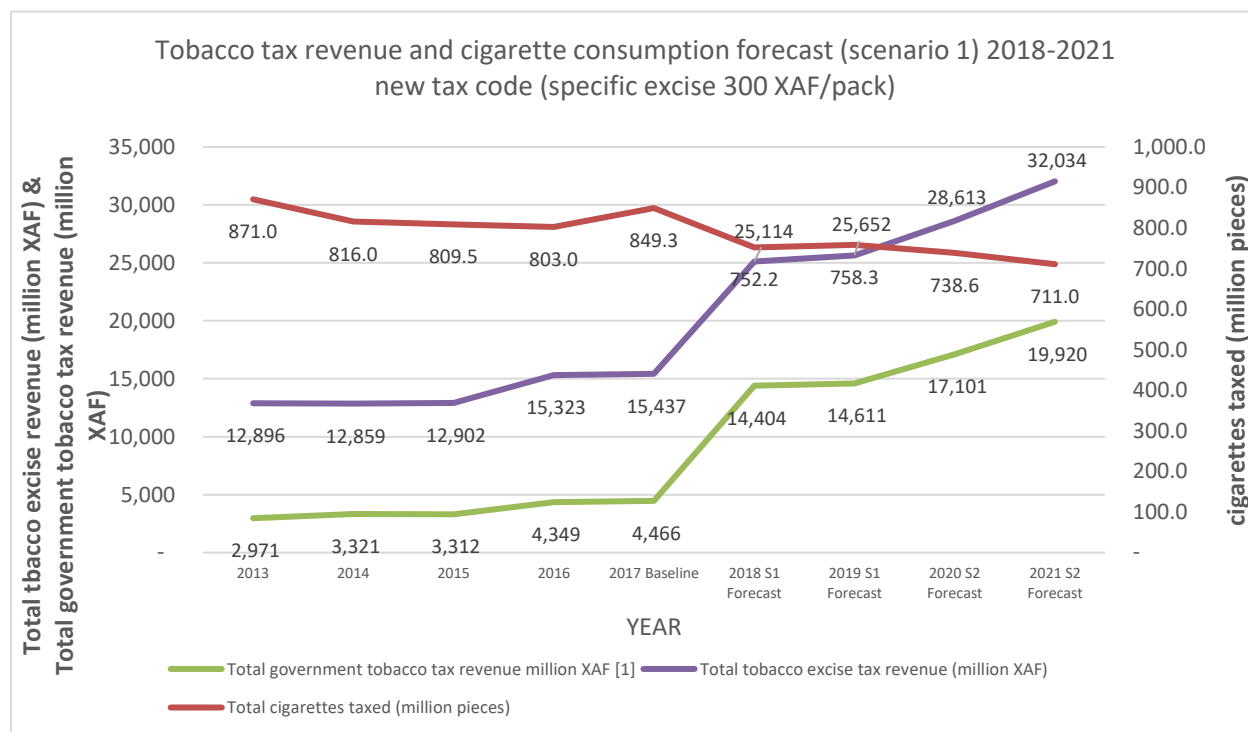
Figure 2 below shows an opposite trend to the observed for the period 2020-2021 in Figure 1 projections, with a positive impact both in reduction of consumption and increase of revenue. The excise increase effect in both the excise tax revenue and total tax revenue curves can be observed in Figure 2. A similar positive effect can be observed in the reduction of the total number of cigarettes taxed. While the total cigarettes taxed decrease significantly from 849.3 million pieces in 2018 to 752.2 million cigarettes, the small increase in 2019 is reduced with the projected reduction from 758.3 in 2020 to 711.0 in 2021 or close to 6.2% reduction.

Table 9: Summary of Cigarette Excise Tax Impact: 2018 Forecast and Proposed Tax Increases under Scenario 2 over 2020-2021

Government Revenue Type	Actual/ Baseline 2017:	Expected Contribution to GDP	Forecast: New tax 25% ad valorem & XAF 300/per pack - 2018	Expected Contribution to GDP	Forecast: New tax 25% ad valorem & XAF 300/per pack - 2019		Alternative Policy (Scenario 2) 2020: 25% ad valorem and a uniform specific of 375 XAF/pack	Expected Contribution to GDP	Alternative Policy (Scenario 2) 2021: 25% ad valorem and a uniform specific of 470 XAF/pack	Expected Contribution to GDP
Total cigarettes taxed (million pieces) [1]	849.31		752.22		758.26		738.65		710.98	
Average cigarette retail price (XAF per pack)	961.05		1,338.09		1,365.72		1,481.86		1,652.79	
Average cigarette price (US\$ per pack)	\$ 1.65		\$ 2.30		\$ 2.35		\$ 2.55		\$ 2.84	
Average excise tax (XAF per 1000 pieces)	5357.6		19,111.5		19,234.8		23,111.9		27,967.7	
Average excise tax (US\$ per 1000 pieces)	\$ 9.20		\$ 32.83		\$ 33.04		\$ 39.70		\$ 48.05	
Total excise tax revenue (billion XAF) [2]	4.55		14.40		14.61		17.10		19.92	
Total excise tax revenue (US\$ million)	\$ 7.82	0.05%	\$ 24.74	0.15%	\$25.10	0.15%	\$ 29.38	0.16%	\$ 34.22	0.18%
Total government tobacco tax revenue (Import duty, excise, VAT and levies, billion XAF) [3]	14.17		25.11		25.65		28.61		32.03	
Total government revenue (excise, VAT and levies, US\$ million)	\$ 24.35	0.16%	\$ 43.14	0.27%	\$ 44.07	0.26%	\$ 49.16	0.27%	\$ 55.03	0.29%
Percentage change in total cigarette consumption (%)	5.77		-11.4		0.8		-2.6		-3.7	

WBG staff estimates

Figure 2: Gabon Cigarette Excise Tax Projected (Scenario 2) 25% Proposed Policy Option 2018-2021 Excise Tax Increase



WBG staff estimates

[1] includes the VAT from Customs Administration and CECA GADIS tobacco sale reports (2017); projected by the simulation model for 2018.

Although the proposed tax increase under Scenario 2 does not reach yet the desirable 75% in total tobacco tax burden as percentage of average retail price for a pack of 20-cigarettes, it would gradually increase from 49.4 projected in 2019, to 51.1% in 2020, and 52.2% in 2021, demonstrating the need to increase the taxes year to year in compliance with Article 6 of the FCTC, and consistent with international best practices which impose uniform specific taxes that are adjusted regularly to account for inflation and increases in average incomes.

III. Conclusion and Policy Recommendations

The impact assessment on Gabonese cigarettes price, consumption and revenue presented in this report shows the positive outcome of the tobacco excise tax changes that resulted from the adoption of the new tax code in 2018 (the government adopted the recommendations for the higher tobacco specific excise of 300 XAF rather than alternative policy option of 200 XAF per 20 cigarettes pack). The projected impact of the selected option²⁵ contained in the report of the Gabonese General Tax Directorate *“on the possibility of improving excise duties in Gabon, June 2017”* is shown in this report both for 2018-2021 maintaining the new tax code scenario without increase, and for the increase of the specific excise tax for 2020 and 2021. While the projections using data as of November 2018 from the Gabonese Customs and Tax Authorities annualized to 2018, may differ from the ones projected in the 2017 study, the conclusions in terms of consumption reduction and tobacco tax revenue increases do not.

²⁵ Scenario 2: Ad valorem taxation at a rate of 25% and a specific taxation of 300 FCFA per pack of cigarettes.

The simulation modelling done shows that proposed policy options under Scenario 2 are the most effective for controlling tobacco use, while helping to mobilize additional tax revenues. Such increase would be compliant with CEMAC (25% ad valorem), as well as with Article 6 of the FCTC, given that the proposed increase in both years exceed the projected increase in inflation and GDP per capita growth.

A scaled-up and stronger tobacco control effort is required in Gabon to achieve the WHO recommended target of at least 30 percent reduction in smoking prevalence by 2025, which would reduce the risk of ill health, premature mortality, and disability among current and future smokers due to tobacco-attributable diseases.

A reduction in smoking prevalence of this magnitude is also critical to reach the health and social targets of the United Nations Sustainable Development Goals (SDGs) (United Nations 2015). Tobacco use among young people is very price sensitive, with reductions in tobacco use in this group two to three times larger with a given price increase than among adults (WHO, 2015).

The path from policy to reductions in tobacco use depends on the likelihood that a country will implement tobacco control measures, and on the measures' effectiveness (Gravely et al. 2017). Raising taxes sharply on tobacco products, and then adjusting for inflation and increased affordability due to growing incomes, is the single most cost-effective measure to reduce tobacco consumption, and as a positive externality, help mobilize additional tax revenue to expand fiscal space for priority investments and programs.

Empirical findings from global assessments contradict traditional arguments of illicit tobacco trade, employment and regressive effects of tobacco tax increases. Illicit tobacco trade undermines global tobacco prevention and control interventions. However, a recent global report by the World Bank Group (2019) shows that, contrary to tobacco industry arguments, tobacco taxes and prices have only a limited impact on the illicit market share at country level. From a public health perspective, illicit trade weakens the effect of tobacco excise taxes on tobacco consumption—and consequently on preventable morbidity and mortality—by increasing the affordability, attractiveness, and/or availability of tobacco products. Furthermore, tobacco illicit trade often depends on and can contribute to weakened governance. However, evidence presented in the report from over 30 countries across the income and development spectrum, shows that raising tobacco taxes is not the primary cause of illicit trade. The evidence indicates that the illicit cigarette market is relatively larger in countries with low taxes and prices, while relatively smaller in countries with higher cigarette taxes and prices. Non-price factors such as governance status, weak regulatory framework, and the availability of informal distribution networks appear to be far more important factors.

Country experience shows that these illegal activities can be controlled by legal means (e.g., use of prominent tax stamps, serial numbers, special package markings, health warning labels in local languages, adoption of uniform tax rates nationwide that facilitate successful collection at the points of manufacture and import), and by increased law enforcement (e.g., improving corporate auditing, better trace and tracking systems, and good governance). For example, since Her Majesty's Revenue and Customs' (HMRC) "Tackling Tobacco Smuggling" Strategy was introduced in the U.K. in 2000, the size of the illicit cigarette market has been cut by almost half, with more than 20 billion cigarettes and over 2,700 tons of hand-rolling tobacco seized. Additionally, the U.K. has seen more than 3,300 criminal prosecutions for tobacco

offences following action by law enforcement officers. In Chile, a country that has one of the highest tax rates on cigarettes in the world, with taxes accounting for 78% of the price of each pack, the government has also experienced increased success in seizures of smuggled tobacco products. A good example is Ireland, where a high rate of tobacco excise, and the consequent high price of tobacco products, makes the country attractive to those involved in the illicit tobacco trade. However, Ireland's comprehensive and effective system of customs and tax enforcement, alongside strong regulatory control of the tobacco market, has contained the illicit flow of tobacco products onto the Irish market. In Africa, countries such as Kenya and Botswana also show the positive impact of having adopted policies and institutional measures to control illicit tobacco trade in spite of having relative higher taxes and prices for cigarettes than other countries in the region.

Policymakers considering tobacco tax hikes are often concerned about impacts on employment. However, increase in tobacco taxes does not negatively affect employment, as evidence from **Indonesia** shows. Recent assessments done by the World Bank Group (Araujo et al 2018), with the participation of the American Cancer Society, indicate that share to industry-wide employment is about 5 percent, or .60 percent of total employment in Indonesia. This share is smaller in comparison to employment in the food (27 percent), garment (11 percent), and textile (8 percent) sectors in Indonesia. The core-sector employment includes about 2.5 million manufacturing workers: 693 thousand farmers, 1.04 million clove farmers, and 750 thousand tobacco farmers. Most tobacco sector workers are females and unskilled (66 percent manufacturing workers and 92 percent production workers). About 43 percent of households with tobacco workers are poor; they contribute, on average, to 60 percent of household income. There is also a male-female wage gap: female production workers earn 25 percent less than males. The assessments also estimated that raising cigarette taxes by an average of 47 percent and simplifying the cigarette tax structure to 6 tiers in Indonesia would reduce cigarette demand by 2 percent, increase government revenue by 6.4 percent, and reduce gross employment in tobacco manufacturing sector by only 0.43 percent.

A related assessment done by the World Bank in Senegal (2018) shows the following impact of the 2014 tobacco tax increase:

- While a decrease in employment and payroll was observed in the first year (2015) after the tobacco tax increase, it recovered the following year (2016).
- The total sales figure moved in the opposite direction compared to payroll. Indeed, while total sales of the tobacco industry trended lower between 2013 and 2014, payroll increased. However, the increase in total sales after the 2014 tax hike was paradoxically accompanied by a drop in the payroll.
- The production of tobacco products appeared to move in the opposite direction of total workforce and payroll until 2015. This phenomenon can be explained by the fact that the surplus in production was attributable to investments in machinery (modernization and mechanization of production).

Another often-cited concern among policy makers is that tobacco taxes are regressive, as they disproportionately burden poorer smokers, who spend a larger portion of their incomes on tobacco products, relative to wealthier consumers. To assess this argument, empirical analyses by the World Bank in several countries over 2016–19 provide an in-depth picture of the sociodemographic distribution of tobacco use. The evidence from these countries finds no support for the claims that the impacts are regressive and highlights the relevance of the long-term benefits of increasing taxes on tobacco. Increasing taxes on tobacco can generate health and equity

improvements and help mobilize additional domestic resources to expand the fiscal space for priority investments and programs that benefit the entire population, particularly the poor. Indeed, far from unfairly burdening the poor, tobacco taxes deliver the greatest share of their potent long-term benefits to people with low incomes. It is smoking that is regressive and tobacco tax increases that are progressive (Marquez and Moreno-Dodson 2017).

The concluding message from the findings of the assessment for Gabon, as well as taking into account global evidence, is that increasing taxes on tobacco can generate health and equity improvements and help mobilize additional domestic resources to expand the fiscal space for priority investments and programs that benefit the entire population, particularly the poor. It should also be clear to policy makers that the aggregate benefits of tobacco taxes can exceed increased tax liabilities, with progressive effects that particularly improve the welfare of lower-income households.

ANNEX I - Box 1: Gabon Macro-Economic Indicators – Actual 2013-2017 & Projections 2018 -2021

Gabon Tobacco Excise Data Matrix	2013	2014	2015	2016 Actual	2017 Baseline	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Average Exchange rate XA(FCFA)/US\$	494.04	494.42	591.45	593.01	582.09	582.09	582.09	582.09	582.09
Macroeconomic data									
GDP at market prices (Current US\$ million)	\$ 17,591.7	\$18,179.1	\$ 14,376.5	\$ 14,015.0	\$ 14,892.8	\$ 16,277.4	\$ 17,198.2	\$17,936.9	\$18,723.8
Real GDP growth rate	5.6	4.4	3.9	2.1	0.5	1.2	3.1	3.9	4.1
GDP per capita growth (annual %)	0.0	0.2	-8.1	-4.7	2.0	7.1	3.6	2.2	2.3
Inflation rate (Inflation, annual %)	-6.2	-1	-8.9	-4.3	3.8	8	2.4	0.4	0.3
CPI (annual average),	0.5	4.5	-0.1	2.1	2.7	4	3	2.5	2.5
Population (Million)	1.82	1.88	1.93	1.98	2.03	2.07	2.11	2.15	2.19

Sources: WBG/IMF

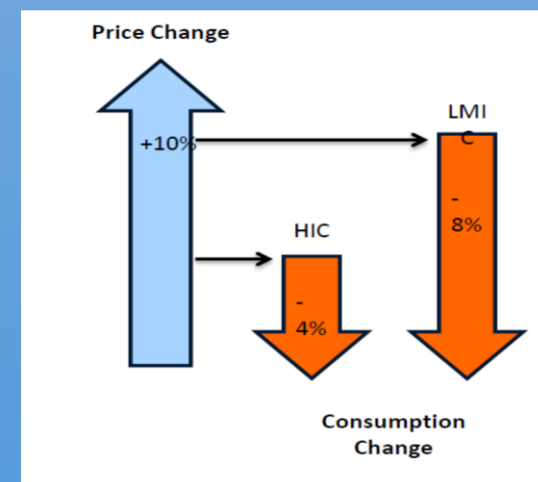
ANNEX I - Box 2: Gabon Tobacco Tax Scenarios – Assumptions Price and Income Elasticity for Upper Middle-income (UMIC)

To estimate the impact of the change in the retail price on consumption, the crucial parameters are:

- **Price elasticity of demand:** The greater the price elasticity, the greater the decrease in the consumption of cigarettes in response to a given percentage change in the price (price elasticity falls in the inelastic range, but closer to -1 than zero).
- **Income elasticity of demand:** The greater the income elasticity may lead to greater consumption of cigarettes in response to a given percentage change in income (income elasticity tends to be unit elastic or somewhat more elastic).
- It is assumed that to protect the profit margins, the importers, and distributors, pass-through the tax increase to the consumer's price
- VAT: 18% (15,25% of average retail price)

Price elasticity:

Meta-analyses of the relationship between tobacco prices and use suggest that the overall elasticity of demand for adults lies between -0.3 and -0.7 (CBO 2012, IARC 2011, Gallet and List 2003, Chaloupka and Warner 2000)



Assumptions:

<i>Cigarette Categories</i>	<i>Tobacco Price and Income Elasticity for UMIC</i>	
Price elasticity for imported economy cigarettes	Value (must be negative)	-0.6
Price elasticity for imported premium cigarettes	Value (must be negative)	-0.4
Income elasticity for imported economy cigarettes	Value (typically positive)	0.8
Income elasticity for premium cigarettes	Value (typically positive)	0.4

van Walbeek, C. 2004. “Economics of tobacco control in Jamaica: will the pursuit of public health place a fiscal burden on the government?”. The adopted income elasticity for smokers of premium brands of 0.4, is like that of smokers in high income countries, while for smokers of economy brands it could be expected like those of low-income countries. In Gabon case, a 0.8 income elasticity for economy cigarettes was proven to be favorable during the model calibration.

Annex II: Health Context of Tobacco Control in Gabon

The prevalence of tobacco in Gabon

Tobacco prevalence studies in Gabon focus mainly on one-off surveys. There are almost no cohort studies over a relatively long period. The surveys carried out about what we have been acquainted, are often interested in a specific category of the population.

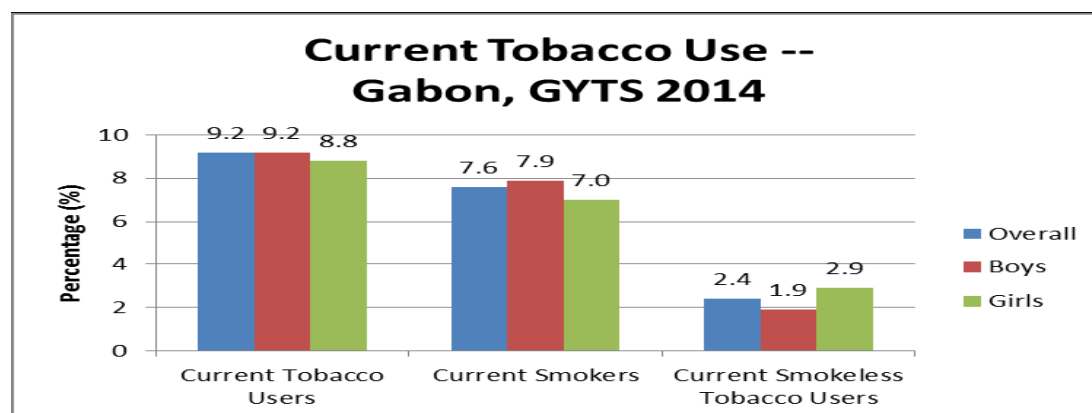
2014 GYTS Survey

The 2014 Global Youth Tobacco Survey (GYTS) is a nationally representative school-based survey of young people aged 13 to 15 years. It uses a standard research protocol that is common to all countries and provides comparable evidence-based data across countries and the implementation of tobacco control policies in accordance with the provisions of the WHO Framework Convention on Tobacco Control (FCTC).

This survey indicates that of the 1,781 students who participated in the survey, 7.6% (7.9% of boys and 7.0% of girls) commonly smoke cigarettes; 5.2% (6.1% of boys and 4.0% of girls) commonly smoke cigarettes; 2.4% (1.9% of boys and 2.9% of girls) use smokeless tobacco; 2.4% (1.9% of boys and 2.9% of girls) use smokeless tobacco.

The prevalence of smoking (smoked or not smoked) is 9.2% overall (9.2% of boys and 8.8% of girls).

Graph II-1: Prevalence of smoking among Gabon's 13 to 15-year-olds by gender - GYTS [Gabon], [2014]



2009 STEPS survey

According to the WHO STEP survey on chronic disease risk factors in Gabon conducted in 2009, the percentage of adults aged 15 to 64 who smoke is shown in the following table.

Table II-1: Prevalence of smoking among adults aged 15 to 64

Age group (years)	Men		Women		Together	
	Effective	%	Effective	%	Effective	%
15 à 24	193	12,4	430	4,2	623	16,6
25 – 34	281	28,8	474	5,7	755	34,5
35 – 44	235	21,3	341	3,5	576	24,8
45 – 54	192	19,8	246	3,7	438	23,5
55 – 64	160	18,1	156	6,4	316	24,5

Source: STEP Report (2009)

Challenges of tobacco control in Gabon

Duration of use and exposure to tobacco

Overall, it can be noticed that before the age of 12, girls tend to start smoking earlier than boys. The peak of initiation is around 12-13 years old (source: GYTS 2014).

Regarding to exposure to tobacco smoke, the rate remains particularly high. More than half of the students surveyed claim to have been exposed to tobacco smoke, especially in public areas (51.1% in closed spaces and 54.1% in open spaces) and even inside schools (source: GYTS 2014).

None of the surveys that have been made available to us (GYTS and STEPS) give any statistics on the use of smoking in the circle of smokers.

According to the GYTS 2014 survey, 77.6% of students (73.3% boys and 81.5% girls) support the ban on smoking in enclosed public places. And 71.8% (68.0% boys and 75.2% girls) support the ban on smoking in open public places.

Tobacco and health in Gabon

For Gabon, according to the study report of the Directorate General of Taxes on the possibilities for improving excise duties in Gabon in June 2017 in partnership with the World Bank in Gabon which, referring to the Tobacco Atlas of 2015, indicates that tobacco-related diseases kill more than 500 people each year. This does not prevent more than 7,000 children and more than 112,000 adults from continuing to consume tobacco. According to the same source, in 2010, tobacco caused the death of 4.5% of men and 2% of women.

The World Health Organization has identified four major noncommunicable disease (NCD) groups: diabetes, cardiovascular diseases, cancers and chronic respiratory diseases. Gabon, like most developing countries, has an epidemiological transition model characterized by the coexistence of infectious diseases and NCDs.

The results of the STEP survey do not establish a direct causal link between the current prevalence of tobacco and that of NCDs in the country. However, it is widely shown in the literature that tobacco is a significant risk factor and aggravating chronic noncommunicable diseases (NCDs).

The results of the STEP 2009 survey show that high blood pressure among a sample of 2708 peoples included 216 (8%) people who reported being known hypertensives, 49.6% of whom had undergone blood pressure Last 12 months, 27.7% in 1 - 5 years and 20.9% for more than 5 years.

For these known hypertensives, 87.0% had been informed by a health professional, 74.1% had taken medication in the last two weeks, and 66.2% had a special diet. Only 45.8% of them had taken advice on losing weight, 10.2% quitting and 29.6% exercising. Known hypertensives reported seeing a healer in 8.3% of cases and traditional treatment for high blood pressure was associated in 7.4%.

The distribution by age group showed that the prevalence of known hypertensives increased with age; from 8.3% for the 15 to 24-year old to 33.8% for the 55 to 64-year-old. This prevalence was higher among women (9.5%) than among men (5.7%). Known hypertensives were more often found in the municipality of Libreville (91.2%).

Table II-2: Distribution of known hypertensives by age, sex and municipality of residence

Age (years)	Men		Women		Total	
	Number	%	Number	%	Number	%
14 – 24	6	10	12	7,7	18	8,3
24 – 34	1	1 1,2	20	12,8	21	9,7
34 – 44	12	20	33	21,1	45	20,8
44 – 54	17	28,3	42	26,9	59	27,3
54 – 64	24	40	49	31,4	73	33,8
Commune						
Libreville	50	83,3	147	94,2	197	91,2
Owendo	10	16,7	9	5,8	19	8,8
Total	60	5,7	156	9,5	216	8

Source: STEP Report (2009)

Regarding diabetes, the STEPS 2009 survey reveals that, according to their diabetes reports, "411 out of 2708 respondents (15.2%) measured their blood glucose during the last 12 months and 1.3% (36%). / 2708) were known diabetics and informed by a health professional. Only 0.4% was on insulin treatment and 1.0% on oral therapy. Plan members accounted for 1.0% of respondents. Very few people had received advice on losing weight (0.7%), quitting (0.1%) and exercising (0.5%). Very few people reported seeing a healer (0.2%) and taking traditional treatment (0.1%) for diabetes".

Table II-3: Distribution of respondents according to their diabetes statements

Statement on diabetes	Men		Women		Total	
	Effective	%	Effective	%	Effective	%
Measured blood glucose	139	13,1	272	16,5	411	15,2
Known Diabetics informed	15	1,4	21	1,3	36	1,3
Insulin	3	0,3	9	0,5	12	0,4
Oral treatment	12	11,3	12	0,7	24	0,9
Diet	11	1	16	1	27	1
Council to stop smoking	2	0,2	1	0,1	3	0,1
Council physical exercises	8	0,8	5	0,3	13	0,5
Council decrease weight	9	0,8	11	0,7	20	0,7
Seen healer	4	0,4	2	0,1	6	0,2
Traditional remedy	1	0,1	2	0,1	3	0,1
Total	1061	39,2	1647	60,8	2708	100

Source: STEP Report (2009)

Noncommunicable diseases such as cancers (cervix, breast, liver, prostate, lymphoma), drug addiction and other drug abuse are becoming a concern for health authorities in Gabon. According to a study on the epidemiological situation of cancer Foundation Sylvia Bongo ONDIMBA (Pink Rose Gabon edition 2018), cancers are the leading causes of death among women (Gabo can, 2012). According to this study, there are no known causes of breast cancer. However, some factors, such as smoking and alcohol, can increase the likelihood of this disease.

In addition, smoking is particularly harmful to the oral health of populations. Indeed, according to the Strategic Plan for Tobacco Control in Gabon 2016-2020, surveys of schoolchildren show a high prevalence of dental caries (60%). In addition to these oral pathologies often related to oral hygiene, there is an increase in maxillofacial trauma due to road accidents, and oral cancers and other oral diseases related particularly tobacco consumption.

It should be noted that beyond chronic diseases (respiratory diseases, type 2 diabetes, cardiovascular diseases, oral diseases, cancers, urological diseases, neurological diseases, ophthalmology and ENT), the analysis of the effects of tobacco on health in Countries such as Gabon must have been considered other diseases such as tuberculosis, AIDS, and maternal and

child health problems. Indeed, these are public health problems that disproportionately affect the countries of the subregion. However, the link between their evolution and tobacco consumption is now well established.

The lack of data on surveys of the harmful effects of smoking on the health of the Gabonese population is an open door to underestimating its role in the burden of the disease in the latter.

In addition, regarding to the effects of tobacco exposure, 48.5% of students surveyed (GYTS 2014) think that breathing other people's tobacco smoke is harmful to them.

Main conclusions

In sum, the analyzes of the sanitary context of tobacco control in Gabon based on the main studies and surveys mentioned above show:

- A significantly high level of prevalence among youth and students
- a stronger smoking trend among men relative to women
- a higher prevalence of tobacco among the most active young and adult male population;
- a decrease in the age of initiation of smoking, a prevalence of smoking in the lower age groups for girls;
- an increase in the prevalence of chronic diseases due or aggravated by tobacco consumption;
- a commitment of the young populations to the measures of prohibition of smoking in open or closed public places;
- a high level of mortality due to tobacco.

Therefore, a careful analysis of the evolution and high level of smoking prevalence in the country shows worrying trends that, if not reversed, may make the country fertile ground for its expansion and a brake on the contribution of human capital to the emergence of Gabon.