The Passport Package:

Rethinking the Citizenship Benefits of Non-Resident Canadians

John Chant

The Backgrounder in Brief

Canada’s “passport package” includes benefits for non-resident citizens, such as emergency evacuation from foreign hotspots. These benefits impose costs on all Canadians. Are reforms needed to better align the costs and benefits of citizenship? Options include substantial passport renewal fees for non-residents wanting to maintain a lifeline to Canada.
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Immigration to Canada and the international migration of citizens are important and often controversial policy areas. Most Canadians see legal immigration as a key positive force for the Canadian economy and society. At the same time, they think that getting policy right is critically important, whether it concern the criteria for admission, residency and citizenship, or the costs and benefits of citizenship, at home and abroad. I share these views and am particularly concerned with the “passport package,” the benefits available to Canadians when outside the country.

The Lebanon crisis of July 2006 raised awareness of one element of the package: the commitment to evacuate citizens abroad — in Lebanon’s case, about 15,000 people at a cost of $94 million — when they are threatened by conflict and instability. To the surprise of some, the commitment extended not only to people normally resident in Canada, but also to people who live permanently abroad with little attachment, if any, to the country. The public may be further surprised to learn that evacuation is only one of the benefits in the passport package.

The passport package escapes the same scrutiny as other policies because it does not show up as current budgetary spending, even though it does have real costs. It provides non-residents with the option of calling on a range of government services when they feel circumstances warrant. Holders value these options in the same way that investors value financial options. And just like financial options, the options impose costs on their writers when exercised. Unlike the writers of financial options, however, the writers of the passport package options — the public — may be totally unaware of the costs to which they are committed until the options are exercised by their holders. This summer’s surprises suggest that the public needs to be better informed about the passport package.

Citizens and Residents

Central to the issue of the passport package are the differences between citizens and residents of a country and the benefits and obligations they receive. These are not the same for each group, nor are the qualifications.

People can acquire citizenship through birth, ancestry or naturalization. With it, they acquire such important benefits as the right to vote and to enter and leave the country freely. Citizens also gain the passport benefits when outside the country. Among the obligations, at times, have been military service and refusal to betray the country.

The term “resident” has several meanings. At its most basic, it refers to anyone physically present in the country, legally or illegally. All residents of Canada, by this definition, have protection under the Charter of Rights and Freedoms. Permanent residents are people who have gained approval to live in Canada indefinitely and have many, but not all, of the same rights as citizens. They have neither the right to vote, nor the same absolute rights of entry and exit as citizens. Permanent residents may lose their ability to stay in Canada unless they meet a

* The author is grateful to Steve Easton, James Fleming, Sergio Karas, Jack Mintz, and Finn Poschmann for their useful suggestions and to Bill Robson for his encouragement and comments.
minimum requirement for their physical presence here over time. A different concept of resident is used for tax purposes. Any person who is physically present for more than 183 days in a calendar year will be subject to Canadian income taxes on all earnings for that year. Other complex criteria may also apply when determining residence for tax purposes.

The Passport Package for Non-Resident Citizens

The benefits of Canadian citizenship for non-residents differ from those for residents. Residents receive a wide range of services, including education and healthcare, income support, and the whole framework of peace, order and good government. Non-resident citizens forgo these benefits and instead gain a package of options that includes:

- the ability to enter Canada freely at any time;
- easier qualification for healthcare benefits on return to Canada;
- consular services including protection for citizens charged with criminal offences and assistance with other legal matters;
- transfer to Canada to serve sentences for offenses committed in foreign countries;
- eligibility for resident tuition fees, together with financial assistance when enrolled in postsecondary institutions;
- easier entry and exemption from visa requirements when traveling to many other countries;
- evacuation from countries suffering war or internal strife; and
- eligibility for descendents to become Canadian citizens with minimal requirements.

The Costs of the Package: The passport package, though free to those people possessing it, has costs to the general public if and when the options in the package are exercised. These costs are in some cases budgetary spending and quite obvious. In others, they are more subtle. The options with obvious financial costs are support for higher education, and the prisoner transfer program.

The value of the higher education benefits for a non-resident citizen can be calculated for a single, independent student, who becomes a resident to attend Simon Fraser University. In our example, the student has minimal resources. This student’s fee benefit would be $10,000, the difference between the $14,444 tuition for international students and the $4,444 tuition for Canadians. In addition, this

1 The Immigration and Refugee Protection Act requires with some exceptions that permanent residents must be physically present in Canada for a total of 730 days in every five-year period (see Karas 2006).
2 Mallan (1995) and Vincent (1995) document the efforts to repatriate Christine Lamont and David Spencer from Brazil, a celebrated case of prisoner transfer.
3 The figures for financial aid were calculated from Figure 5A.IV.1 (p.195) in Junor and Usher and BCSAP Information for Student Aid. Accessed at www.aved.gov.b.c.ca/student services.
4 Simon Fraser does direct a portion of the fees of international students to a bursary fund for...
student would qualify for financial assistance of up to $275 a week: $110 as a non-repayable grant and $165 as a student loan on which interest is waived while the borrower remains a student. The lower tuition and the grant together have an annual value of $13,400, or $53,600 over a four-year degree. While the details of tuition fees and financial assistance differ from province to province, this example is close to the average.

The prisoner exchange program imposes costs on the public when more prisoners return to Canada than leave. Canadians will likely prefer to return to avoid the conditions of foreign prisons and to have their sentences administered more leniently. Many foreign prisoners will want to remain in Canada for the same reasons and in some cases they cannot be deported because they were granted refugee status or may face torture at home. Foreign prisoners also benefit from legal avenues of redress in case of prisoner rights violations which they would not enjoy in their home countries. As a result, the balance will likely involve net transfers to Canada. Each additional offender jailed in Canada costs between $70,000 and $150,000 per year.5

The costs of free entry of non-resident citizens into Canada are less obvious. Zhang (2006) estimates that 2.7 million, or 8 percent of all Canadian citizens, live outside the country, with the US accounting for 44 percent, Asia for 24 percent, and Europe for 18 percent. Ley and Kobayashi (2005) report that a large proportion of the non-resident Canadians surveyed in Hong Kong look forward to returning to Canada at some point. While Zhang (2006) judges 1.7 million of the Canadians abroad to be permanent residents elsewhere, international conflict or internal strife could trigger a sudden influx to Canada. The flight triggered by a war in the straits of Taiwan or by a crackdown on democracy in Hong Kong would dwarf the numbers of the Lebanon crisis.6 Its impact would extend well beyond evacuation. Many of those fleeing would have little or no experience in Canada and would need the same assistance as new immigrants. The adjustment could be severe because the flow of non-resident citizens into Canada might be very large relative to the normal annual flow of 200,000 to 250,000 immigrants. Such large, unpredictable, potential inflows could overwhelm the government’s efforts and ability to adjust the size and composition of immigration flows from year to year for reasons such as demographic structure, needs of employers, anticipated settlement patterns, and the state of the economy.

Qualifying for the Package: People qualify for the passport package in different ways. All those born in Canada become citizens automatically even if their mothers are in Canada illegally, or as tourists, specifically to gain citizenship for

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footnote 4 cont’d
these students. The calculations would be affected to the extent there were differences in the bursaries available to Canadian and foreign students.


6 Kenny Zhang and Don DeVoretz have suggested these possibilities in interviews. See Skelton (2006).
their child. Others can qualify through:

- meeting residence requirements and exhibiting fluency in one of the official languages and a knowledge of Canada,\(^7\)
- having one parent who is Canadian at the time of birth;
- having one parent whose parent was a Canadian citizen and satisfying any of i) a year’s residence in Canada; ii) a demonstrated knowledge of Canada and one of the official languages; or iii) attendance at a secondary or postsecondary institution in Canada.

People are subject to no further requirements once they become citizens.\(^8\)

Since the 1970s, Canadians can be citizens of other countries while maintaining their Canadian citizenship. This possibility, combined with Canada’s citizenship requirements, allows second and later generations born abroad to become citizens without having lived in Canada. Thus, generations successively removed from Canada have open-ended access to the passport package.

Moving Forward

The passport package offers benefits to all Canadian citizens abroad. Some citizens are on holidays, business trips, or short-term assignments; others are permanent residents and citizens of other countries.

It is difficult to justify offering the passport package to all non-resident citizens on its present terms. It is financed by residents and is offered to all non-resident citizens without regard for their affinity to Canada and without asking for anything in return. The passport package and its elements deserve to be reexamined to determine whether they serve Canada’s interests.

If Canadians wish to revamp the passport package, they can do so in the following ways:

- trimming its benefits;
- changing qualifications for citizenship;
- eliminating dual citizenship;
- mandating financial contributions from non-resident citizens.

The advantages and disadvantages of each approach shall be considered.

Trimming the Benefits: While the passport package could be trimmed by cutting out some of its parts, such a trimming might jeopardize its purpose. Review of the elements in the package suggests it does serve legitimate needs of Canadians who

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7 They need to live in Canada for at least three years (1095 days) of the previous four years (1460 days) and have permanent resident status for at least two years. Residency is measured by physical presence in Canada. The residence requirement is not absolute and can be circumvented by showing that a person has a “centralized” mode of living in Canada based on taking a number of factors into account (Karas 2006).

8 Assuming their applications have been faithfully completed.
are out of the country on a short-term basis.

Changing the Qualifications: Canadians may wish to reconsider the basis on which people become citizens through residence, ancestry or birth. In each case, changes could be made that place greater emphasis on an affinity to Canada.

Raising residence requirements to qualify as citizens is one option for dealing with the passport package (Hansen 2006). Canada’s three-year residence requirement for citizenship after being granted permanent residence status is shorter than elsewhere. The United States typically requires five years; Britain, five years as well; and Germany, eight (Hansen and Weil 2001). While some may view raising residency requirements as anti-immigration, this view is incorrect. To the contrary, higher residency requirements would sort applicants according to their motives. People seeking only the passport package would find the longer residency costly. Those intending to live in Canada would still face some delay in gaining citizenship, but could live in Canada during the delay. Adopting longer residence requirements would create more room in immigration flows for those who would contribute most to Canada.

Ancestry as a basis for citizenship could be modified to create an expectation of identification with Canada. Second and later generations born abroad could be expected to at least take positive steps at age 18 or 21 to retain their Canadian citizenship.

The present basis for automatic citizenship by birth covers possibilities ranging from, at one extreme, being born in Canada to Canadian parents to, at the other, being born to tourists or illegal residents who come to Canada specifically to qualify their children as citizens. Granting citizenship automatically to children born to tourists or illegal residents appears anomalous relative to the processes and requirements expected from others. Policymakers should reassure themselves that retaining these categories of citizenship by birth are appropriate components of the passport package.

Eliminating Dual Citizenship: At the heart of the passport package issue is the question of dual citizenship. Dual citizenship means:

> a person can have each or many of the rights and responsibilities that adhere to a citizen in all of the several countries in which he or she is a citizen, regardless of the length of time of actual residence in a country, … or the nature of his or her economic, cultural, or political ties. (Renshon 2002.)

Dual citizenship was first recognized by Canada only in the 1970s. It is now permitted in some form by at least 150 countries with China, Cuba and South Korea being notable exceptions (Renshon 2002).

The package could be modified by making its protections apply only to those dual citizens who have presented themselves abroad as Canadians. To do this, a traveler would have to apply for the same visas and be subject to the same conditions as other Canadians, even though they could avoid these conditions by traveling under other passports. This approach has the appeal of having people who wish to be treated as Canadians travel as Canadians. On the other hand, it
creates distinctions that would be difficult to enforce. In a crisis, it would mean evacuating some citizens and not others. Also assistance could be denied to some imprisoned Canadians. In practice, immediate action is often required before the basis on which the person traveled can be verified.

A more drastic solution would be to prohibit Canadians from holding dual citizenship, as suggested by a House of Commons committee in 1993 (Granatstein 2006). Any Canadians acquiring other citizenship would be deemed to have forfeited their Canadian citizenship and prospective citizens would be forced to renounce all other citizenships. Prohibiting dual citizenship might discourage people from immigrating to Canada who otherwise would consider settling here. Immigrants often face uncertain outcomes and until they actually experience life in Canada, they might be reluctant to cut their home ties. Yet remaining in Canada as a permanent resident does not offer the same security of residence as that available to citizens.9 Facing a need to give up their original citizenship, people may choose to immigrate to other countries. While such a policy would eliminate many who are just shopping for another passport, Canada might also lose desirable potential immigrants.

Eliminating dual citizenship may be difficult to achieve in practice. Dual citizenship varies from country to country. Some countries claim all people born there, wherever they live and regardless of any actions taken to renounce their citizenship. A Canadian ban on dual citizenship would not change birth countries’ perception of émigrés. Just as important are questions about enforcement. Would Canada require a disclaimer on passport applications? How would it treat Canadians whose birthplaces do not recognize renunciation? Given the diverse approaches to citizenship around the world, how would Canadians who cannot avoid being citizens of other countries be treated?

Supporting the Package. The passport package is supported by taxes paid to Canadian governments. Because of Canada’s use of residence as a basis for taxation, only those who live in Canada, or are considered residents for tax purposes, pay these taxes. To extend the support of the passport package, the Canadian government could adopt either of two approaches. It could follow the US, by taxing its citizens wherever they live, an approach suggested by Mintz (2006).10 Alternatively, it could levy a special passport renewal fee for non-resident Canadians.11 Each of these approaches would discourage people who hold Canadian citizenship purely for convenience by raising their costs, at the same time as raising revenue from those who continue to hold the passport package.

Applying income taxes to all citizens regardless of place of residence would create several problems. The application of taxes would not be neutral among people living in countries with different levels of taxation. Agreements to avoid double taxation mean Canadians living abroad gain credit for the income taxes

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9 Karas (2006) documents two cases where former permanent residents discovered they had lost their right to remain in Canada after having being out of the country for an extended period.

10 Non-resident citizens can exclude $80,000 of earned income from their US tax base and are allowed an offset for taxes paid elsewhere.

11 This approach has been suggested by Richard Kurland, a Vancouver immigration lawyer. See Skelton 2006.
elsewhere. Canadians paying low taxes where they reside may have to pay substantially more taxes, while those facing high taxes would pay little or nothing more. For this latter group, the application of the tax would not discourage those holding the Canadian passport purely for convenience, as they would bear no additional costs. A more substantial problem is the need to set up a reporting and compliance apparatus, specifically for taxing Canadians residing abroad.

A better way to support the package would be through levying a special passport renewal fee for non-resident citizens who otherwise pay no taxes. This method would use an existing apparatus, the passport renewal arrangements, for collecting the fee. It would also be self-enforcing: non-resident citizens would have to comply to retain their passport. It would be even-handed by requiring all non-residents to contribute the same amount wherever they live. Some would criticize this method for levying the same fee to all non-resident citizens regardless of their financial status: to do otherwise would necessitate setting up an elaborate apparatus to determine the ability to pay of individual non-residents.

The theory of financial options provides guidance with respect to setting the level of the passport fee. The value to the holders of the passport package over any period equals the sum of the values of each option in the package. In turn, each option has a value equal to the probability it will be exercised in the period, times the value the holder gains from its exercise. Different holders of the passport package would attach different values to each element. A law abiding citizen who values avoiding a year in a foreign jail at $60,000 would be willing to pay $6 a year for the privilege of repatriation if they have a 1/100 percent chance of spending a year in a foreign jail. Someone more criminally inclined may be willing to pay much more.

Like financial options, the options in the passport package are exercised when they are “in the money”; that is, when the value of the object optioned exceeds the strike price at which the option can be exercised. In the same way, passport options are exercised only when their holders perceive that the benefits from exercising exceed the costs. Often this will be dictated by events. The benefits from higher education become attractive when a student wants to come to Canada to study; the prisoner exchange becomes valuable to someone facing jail in a foreign land; and the option of evacuation and assured entry to Canada will be exercised in times of war and domestic upheaval. The parallel with financial options goes further: if people fail to renew their passport, the option expires out of the money.

To make the package self-supporting, the fees would have to cover the cost of underwriting the exercise of the options. The revenues of the package would depend on the reaction of non-resident citizens. Some would judge that the value of the package exceeds the fee and opt to pay, while others would let their passports lapse and lose the benefits. If 20 percent of current non-resident citizens opted not to pay the fee, a $500 fee for five-year renewals would raise roughly $200 million per year.

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12 Some non-residents do pay taxes to Canada through withholding taxes on capital income or pensions. These non-residents should be allowed to credit their taxes toward the non-resident passport renewal fee.
The cost of the passport package to the public for any period can be derived as the cost of providing the package’s services times the probability that they are exercised in that period. While some costs, such as the $94 million for the Lebanon evacuation are clear (Canada 2006), other costs are not so well understood. Even less clear are the probabilities that parts of the package will be exercised. Considerable work needs to be done to determine the overall costs of the package to arrive at an appropriate passport renewal fee.

Conclusion

John F. Kennedy’s appeal, “ask not what your country can do for you — ask what you can do for your country” was a high mark for the rhetoric inspired by citizenship. Its message, however, is at odds with reality. People do weigh the benefits and costs of citizenship in deciding which and how many passports they carry. Some become and remain citizens of countries where they never intend to live. The prime minister has ordered a review of citizenship policy (Fong 2006). Such a review must also weigh the costs and benefits of providing the passport package, and decide what would be in the interest of Canadians as a whole. Raising residence requirements in line with those elsewhere; tightening citizenship requirements for some groups; and raising passport fees for non-residents appear to be useful approaches to reforming the passport package. These measures would better align the benefits of citizenship with their costs, as well as serve to encourage immigrants with opportunity on their minds rather than opportunism.
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