



What Does the GOP Victory in the U.S. Mean for Canada's Energy Producers?

Description

Tuesday was midterm election night in the United States, and the Republican Party was the clear winner. Beginning next year, the GOP will control the Senate, in addition to the House of Representatives, making life even more difficult for President Barack Obama.

It also may mean a shift in policy, especially surrounding energy. So what does this mean for Canada's energy producers? Below we take a look at three key things to watch for.

1. A vote on Keystone

Early indications are that Republicans will force a vote on the **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) Keystone XL pipeline early next year after the new Senators are sworn in. If such a bill passes, it will be up to President Obama to either sign it or veto it.

This does not mean that Keystone XL will be approved – there are numerous obstacles. Most important, the president is likely to veto any such legislation. In fact, some Republican strategists even suggest waiting for a better opportunity.

But the Republican victory still makes a Keystone approval more likely. And it's important to remember one very important thing: Canada's energy producers will benefit more than TransCanada itself.

So you're better off betting on a company like **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)), whose production comes almost exclusively from Western Canada. Canadian Natural Resources has even signed up for 120,000 barrels per day of capacity on Keystone, and it would benefit immensely from reduced differentials.

2. Increased supply in the United States?

This might be a worry among Canadian producers. After all, Democrats have at times impeded oil production in certain geographies, such as the East Coast and Alaska. Does a Republican victory mean more U.S. oil production and lower prices for Canadian oil?

Not really. Much production in the United States now comes from shale formations like the Bakken in North Dakota and Eagle Ford in Texas. The deep-water drilling areas, many of which are very high-cost, now seem like more of an afterthought.

3. Increased demand in the United States

This is another positive for Canadian energy producers. Much of the Democrats' energy policy centered on reducing the demand for energy. This came in the form of fuel-efficiency standards, cap-and-trade proposals, and subsidies for clean energy.

Republicans have always been hostile to these policies. So for the next two years, they are unlikely to pass. While this may be bad for the environment, it reduces the uncertainty for Canadian energy producers.

The verdict

At this point, we can conclude two things:

- The Republican victory is a net positive for Canadian energy companies.
- Other factors — such as increased oil production, and the sluggish world economy — are much more important to these companies than U.S. politics.

More important, Canadian energy companies are trading in bargain territory, and are thus worthy of a spot in your portfolio. One of those companies is The Motley Fool's top stock pick for 2014, featured in the free report below.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:TRP (Tc Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:TRP (TC Energy Corporation)

Category

1. Energy Stocks
2. Investing

Date

2025/07/23

Date Created

2014/11/07

Author

bensinclair

default watermark