Is Canada Less Friendly to Oil Than the U.S.?

Description

Encana (TSX:ECA)(NYSE:ECA) has confirmed that the company intends to shift its incorporation over to the United States from Canada in early 2020. Encana claims that the primary reason for the move to the U.S. deals with reduced share price valuation from Canadian affiliation.

Encana looked at the differences in energy investment between U.S. incorporated entities and Canadian peers. The company found that U.S.-domiciled peers attract more passive investment than Canadian corporations. Encana wants to become a U.S.-based corporation in hopes that it, too, will attract less-volatile investment capital.

Is this the full story behind Encana's decision to move? The October election in Canada and shifting global preferences toward the U.S. oil industry may have also influenced Encana's decision.

Liberal Party loses steam in Canada's Parliament

Liberal Party leader and incumbent prime minister Trudeau is oil friendly because he likes the export income from natural resources.

Changes arising from October's Canadian election may have made Canada feel less friendly to Encana. The Liberal Party lost 20 seats in Parliament, and the New Democratic Party lost 15 seats. The Conservative Party and the Bloc Québécois gained 26 and 22 seats, respectively.

These changes in the political landscape may have made Encana feel less welcome as a Canadian corporation.

U.S. politics may seem more oil friendly

Alternatively, we may also want to look at the political environment in the U.S. for the reasons behind Encana's geographic shift.

The Republican Party in the United States is historically more friendly to oil. With U.S. president Donald Trump in the White House and a Republican majority in the Senate, oil corporations should feel confident in their ability to influence U.S. politics in their favour.

The current administration supports oil sanctions, which constrain supply and raises the price of oil, against both Iran and Venezuela. The high price of oil widens the profit margin for North American oil companies, which otherwise suffer from noncompetitive production costs.

Switching over to the United States is not without risk. There is a substantial progressive movement toward clean energy policies, especially coming from the politically powerful state of California. The level of amicability toward the oil industry could easily fall in any upcoming state or federal U.S. election.

Geopolitics more friendly to U.S. oil

Encana is not the only oil stock becoming more bullish on U.S. production. **Chevron** is also planning increased investment in U.S. oil. The company's decision is a sign that oil executives believe that the geopolitical environment favours the less cost-competitive U.S. oil industry over other oil-producing countries.

Chevron is reportedly selling several Nigerian oilfields to devote more resources to U.S. oil output. North American oil production is so expensive that any increase in oil production from OPEC nations threatens the very existence of U.S. and Canadian companies.

Nigerian assets help these U.S.-based corporations succeed in the global energy market. Selling these production assets to concentrate on U.S. production is not a minor choice for a well-positioned company like Chevron.

Foolish takeaway

Everyday Canadian savers should not be investing in oil stocks, as they are too volatile for a Tax-Free Savings Account or Registered Retirement Savings Plan. Still, it is crucial for every Canadian to understand the underlying politics involved in these market-moving decisions.

Encana's decision may attract more passive capital. It would not be surprising if the company has already lined up big investors who made U.S. incorporation a condition of continued or increased support. Aspiring Canadian retirees should understand that even as a long-term investment, oil stocks come with substantial risk — more than likely too much risk for the ordinary investor.

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