We would like to thank the invited commentators for their comments and suggestions and are happy that they agree with us that our topic is an interesting and merits analysis. For the specific questions, we have the following replies:

i) How do you actually motivate the definition for the potential value of preferences (PVOP)? I did not see how your definition accounts for fixed costs (which you argue are important), for example.

The potential value of preferences (PVOP) for a particular shipment/transaction is defined as the preferential margin times the value of the goods exported. If this value is greater than the cost of obtaining the preferences, preferences will be used. We try to explain this on page 3 (assuming that the cover is page 1)

Using the potential value of preferences is preferable to using the preferential margin (as has been done in earlier research) to approximate costs faced by the exporter in the presence of non-negligible fixed costs as the preferential margin only captures variable costs.

ii) Given the definition of PVOP, how would you defend the exogeneity of PVOP in your regression?

The PVOP equals the preference margin times the value of goods. The endogenous variable, the preference utilisation rate equals 1, if we observe preferential imports or 0 otherwise (and nothing in-between). For transaction-level data, the endogenous variable indicates whether we observe preferential imports or not, irrespective of the level of the preferential margin, or the value of goods. Hence, PVOP is exogenous.

iii) Concerning the regression model I would like to have seen a more detailed discussion about the underlying latent process/theory.

In the revision of the paper, we will provide more information on this.

iv) I did not find where you explain for what the indices "j" and "k" stand for.

"j" stands for countries and "k" for products. This will be added in the revision of the paper.

v) You added in your regression dummies for COUNTRY and PRODUCT. When I got the interpretation right, "j" and "k" stand for countries and products. But then they would work like fixed effects. However, I wondered how you deal with the incidental parameters problem in this non-linear model (see for a general discussion of the incidental parameter problem, Greene, pp. 659ff and for the case of probit models, pp. 761ff).

Our dummy variables are for countries and TDC sections. Within each of our 18 "product" dummies (the dummies are for each TDC section), we have large numbers of observations ranging from 121 in TDC Section V to 2664 in TDC Section XI. The same picture holds for the country dummies, albeit with lower numbers (from 24 (Solomon Islands) to 2797 in the case of Madagascar). Hence, in this setting the incidental parameters problem should not be a problem.