

Reply to referee:

We would like to thank the referee for providing these useful comments which serve to improve the paper. We are happy that the referee agrees with us on the importance of the topic and we provide replies to his remarks below. The most substantial points the referee refers to will be remedied in the revised version of the paper.

Section 2

We do not necessarily agree with the referee's opinion on the presentation of our results in column 2 and 3 in the tables A1 and A2. The divergence between the value and number of observations using preferences is already clear as the total number of flows is the sum of flows not using preferences and the ones using preferences. Moreover, to show the economic importance of flows not using preferences we want to depict its absolute number,

We are describing the total number of flows not using preferences, while admitting that one flow may consist of several transactions. This provides a potential upper-bound value at which preferences are not used, while the actual values may be much lower if several transactions make up the aggregate figure.

The standard deviation relating to the average tariff margin and details on COMEXT (Eurostat) as data source will be added in the revised revision of the paper.

Section 3

The theoretical framework for our chosen discrete choice model and the formal specification of the model we have used will be extended in the next version of the paper and we will pay more attention to getting the definitions of all the sub-indices included.

The asterisks denote significance at the 1 (***) , 5 (**) and 10 (*) % level. The estimates of the country and product dummies will be put in an annex in the revised version of the paper, while the figures of the constant will go into the main table. Stata was used to run the regressions.

We report and interpret the marginal effects evaluated at the mean of the PVOP. We do not interpret them as dealing with a linear model.

We specified the explanatory variable *potential value of preferences* (PVOP) as being the value of import multiplied by the preference margin. Our hypothesis is that the relevance of the preferences increases with the value of imports, which is why we chose to include it in this specification. However, in the revised version of the paper, we will present both the aggregate impact of PVOP and the impact of the size of the flows and the preference margin separately.

Our product dummies are included to capture all product-specific effects, not only rules of origin (which are defined at the 4-digit level). Such dummies could be included for sectors where we know *a priori* that rules of origin tend to be difficult to fulfill (e.g. clothing). Overall, we gratefully acknowledge the referee's proposal to further elaborate and exploit the material with dummy variables.

Publicly available data at transaction level does not exist. However, we will try explore the extent to which several transactions make up the data on our flows with sources that are not publicly available.