**Answers to referee 2 (“This paper first decomposes transport costs into its respective ad-valorem and specific component. …”)**

***We thank the referee for these insightful comments and suggestions, which have helped us revise substantially the paper. Our answers to your questions and suggestions are given in bold.***

*1. Implications/usefulness of the exercise*

*2. Empirical strategy*

*I do not see why the authors need the complicated non-linear transformations to do what they aim for. Estimating (2) should be relatively easy, for one it is linear, but it would also not require the inclusion of any country-sector fixed effects.*

*Based on (a variant of) a linear regression like the one outlined above in (2) the authors should be able to do all their analyses, both those in section 2 as well as those in section 3. Unless I am wrong here, I would urge the authors to make use of this simpler linear specification. In my view, there is nothing in their analysis that requires transforming (1) into the more complicated non-linear specification that they now estimate.*

**As highlighted by the referee, our estimated equation imposes to use non-linear estimation methods, such as Non-Linear Least Squares. However, even with another formulation, such as the equations (1) and (2) suggested by the referee, we would still be constrained to resort to non-linear estimators. This is due to the restrictions imposed *ex ante* on parameters, i.e. *τ* ≥ 1 and *t* ≥ 0, the latter meaning simply we constrain both types of trade costs to be non-negative. Without these restrictions, standard linear, least squares estimates deliver aberrant values with more than mild quality-ofo-fit [insert examples here]**

**We do acknowledge this is very important was not made clear enough in the initial version, and did our best to make the pint clear in the revised version [see page XX : XX insert quote XX].**