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BY UNITED PRESS INTERNATIONAL

EGYPTIAN PRESIDENT ANWAR SADAT SAID SUNDAY HE WAS CERTAIN SYRIA WOULD SIGN A SECOND DISENGAGEMENT ACCORD WITH ISRAEL AND AGAIN URGED THE UNITED STATES TO OPEN A DIALOGUE WITH THE PALESTINIANS.

BUT SADAT TOLD THE PARIS MAGAZINE NOUVEL OBSERVATEUR HE NO LONGER KNOWS WHAT THE PALESTINIANS WANT AND ADDED, "THAT IS THE DRAMA. BELIEVE ME, THAT'S THE ENTIRE PROBLEM. AND IT IS TRAGIC."

DIPLOMATIC SOURCES IN CAIRO, WHERE FRENCH PRESIDENT VALERY GISCARD D'ESTAING WOUND UP A FIVE-DAY VISIT, SAID PRESIDENT FORD WOULD VISIT EGYPT IN APRIL.

IN A JOINT COMMUNIQUE BEFORE GISCARD D'ESTAING'S DEPARTURE FROM CAIRO, FRANCE AND EGYPT AGREED ON THE "URGENT NECESSITY OF A JUST AND DURABLE" PEACE IN THE MIDDLE EAST, WITH COMPLETE ISRAELI WITHDRAWAL FROM OCCUPIED ARAB LANDS AND ESTABLISHMENT OF A PALESTINIAN STATE.

THE COMMUNIQUE LISTED A NEW ARMS INDUSTRY FOR EGYPT AS ONE COOPERATIVE VENTURE IN WHICH FRANCE WILL CONTRIBUTE KNOW-HOW AND "THIRD PARTIES," LIKELY OIL-RICH ARAB STATES, WILL SUPPLY THE CAPITAL.

SADAT TOLD REPORTERS, "WE IN THE ARAB WORLD HAVE SUFFERED FROM A MONOPOLY OF ARMS BY THE BIG POWERS. SO WE HAVE NOW ASKED FOR FRENCH HELP TO ESTABLISH AN ARMS INDUSTRY. THE ANSWER FROM PRESIDENT GISCARD D'ESTAING WAS COMPLETELY FIRM."

THERE WAS NO MENTION OF DIRECT FRENCH MILITARY AID TO EGYPT IN THE COMMUNIQUE.

IN JERUSALEM, THE ISRAELI CABINET BEGAN DEBATE ON A \$12 BILLION BUDGET FOR 1976 THAT CONTAINS THE MOST DRASTIC CUTBACKS IN GOVERNMENT SPENDING IN ISRAEL'S HISTORY AND IS DESIGNED TO SLICE THE STANDARD OF LIVING BY 3 PER CENT TO COMBAT INFLATION. FULLY 38 PER CENT OF THE BUDGET WOULD GO FOR DEFENSE.

IN HIS PARIS INTERVIEW, SADAT WAS ASKED ABOUT SYRIA SIGNING A SECOND AGREEMENT ON THE GOLAN HEIGHTS FRONT WITH ISRAEL. "CERTAINLY THEY WILL SIGN. I HAVE NO DOUBT ABOUT IT," SADAT SAID.

"I HAVE SAID TO PRESIDENT FORD (DURING HIS VISIT IN WASHINGTON): IT IS ABSOLUTELY NECESSARY THAT A DIALOGUE IS OPENED BETWEEN THE PALESTINIANS AND YOU," SADAT SAID. "IT WILL BE NECESSARY, IF YOU REALLY WANT TO RESOLVE THIS QUESTION, FOR ALL PARTIES CONCERNED, INCLUDING THE PALESTINIANS, TO SIT AROUND ONE TABLE."

SADAT SAID, "IT IS NECESSARY TO CREATE A PALESTINIAN STATE ON THE JORDANIAN WEST BANK AND IN GAZA."

BUT ASKED ABOUT WHAT THE PALESTINIANS WANT, SADAT REPLIED, "I WILL TELL YOU THE TRUTH. I NO LONGER KNOW WHAT THEY WANT. TRULY, SINCERELY, I COULD NOT SAY. WHO ELSE KNOWS? THAT IS THE DRAMA. BELIEVE ME, THAT'S THE ENTIRE PROBLEM. AND IT IS TRAGIC."

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2856 MIDEAST - REACTION

JERUSALEM, DEC 14, REUTER - ISRAELI GOVERNMENT OFFICIALS SAID TODAY THE AGREEMENT BY FRANCE TO HELP ESTABLISH AN ARMS INDUSTRY IN EGYPT WAS A MAJOR OBSTACLE TO PEACE.

THE AGREEMENT WAS ANNOUNCED IN A JOINT COMMUNIQUE AT THE END OF TALKS BETWEEN PRESIDENT ANWAR SADAT OF EGYPT AND PRESIDENT VALERY GISCARD D'ESTAING, WHO HAS BEEN VISITING EGYPT.

PRESIDENT SADAT AND OTHER EGYPTIAN LEADERS HAVE SAID EIGHT MIGHT HAVE TO WAGE WAR AS A MEANS OF SETTLING THE MIDDLE EAST DISPUTE. THE ISRAELI OFFICIALS SAID.

THE ISRAELIS SAID THEY HAD OFTEN WARNED AGAINST MASSIVE ARMAMENT SUPPLIES TO ARAB COUNTRIES, WHICH WOULD ONLY MAKE THEM LESS INCLINED TO REACH A GENUINE PEACE AGREEMENT.

THE FRANCO-EGYPTIAN AGREEMENT APPEARS TO BE EXACTLY THE SORT OF THING WE HAVE WARNED AGAINST, THE ISRAELIS SAID.

REUTER AR/WL